



## **RECENT IDEAS AND RESEARCH IN ECONOMICS**

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## **Measures and Possible Support Solutions of the Sustainable European Economy in the Context of Actual Crises**

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### **Abstract**

The COVID-19 pandemic involves the major risk of a severe recession, and of the economic, financial, social, educational crises, which will affect the entire EU economy, with consequences for citizens, businesses, jobs, and households. In order to guarantee the continued availability of sufficient liquidity on the market, to counteract the damage caused to healthy enterprises and to maintain the continuity of economic activity during the epidemic and after the end of the COVID-19 pandemic, it is necessary to develop a plan of measures and solutions. supporting the European economy, both through direct measures of state aid, as well as through measures to support/develop/innovate the business environment through the EU funding programs allocated at the level of the Member States both in the period 2014-2020, but more elected 2021-2027, the effects of the current crisis being both short term, but especially in the medium and long term. Among the objectives pursued we propose: identification and proposal of state aid measures to support the economy in the context of the current epidemic of COVID-19 through close coordination at European level of the aid measures; estimating the impact of temporary state aid measures on the European economy through the intervention of the European Commission; and ways to attract European funds for the business environment through the European Union funding programs existing in the budget for the period 2014-2020, but especially for the period 2021-2027.

**Keywords:** economic crisis, European economy, sustainable development.

### **Introduction**

The current challenges at the European level (including global) and its financial and economic consequences have caused a major economic slowdown, especially on small businesses, and the European Union in the period February-April 2020 has concretely supported through monetary and fiscal policy, respectively through ( European Commission, 2020):

The temporary framework of the European Commission;

Fiscal policy instruments and Multiannual Financial Framework 2014-2020;

Multiannual Financial Framework 2021-2027;

European Investment Plan for European Green Transactions.

The State aid financial instrument could also be used during this period to remedy the serious disturbances of the economy. According to official European Commission documents, the Temporary Framework adopted in March 2020 established temporary state aid measures that the Commission will consider compatible with state aid rules, thus allowing Member States full flexibility in supporting coronavirus-affected economies. The temporary framework was created to respond more effectively to the different needs of the Member States. Moreover, it initially focused on measures to ensure liquidity in the economies of the Member States. In early April this year, it was extended to include measures to support the medical economy and investment, coronavirus-related research and production, measures to relax the social and tax obligations of companies and the self-employed, and measures to subsidize employee salaries, including of micro-enterprises.

Experts argue that the Temporary Framework includes emergency liquidity measures for the business environment, as well as temporary tax deferrals for businesses, which are considered to be the most effective policy measures (Boumans, D., 2020). Moreover, it is considered that financial support must be carefully dimensioned for each economic agent, so as to avoid both the economic crisis and the financial crisis.

### **Methodology of scientific research**

The methods and tools that formed the basis of this paper are the classical ones, respectively instruments of observation and examination, research methods based on the basic principles of scientific research. Moreover, we performed procedures based on factual analysis, as a result of significant practical work experience and intense documentation at the level of existing literature, especially at European level, but we correlated with the information identified internally and internationally in the context of these global challenges generated by the pandemic COVID 19.

### **Research results**

At the level of the *Member States of the European Union*, policy measures (fiscal, sectoral, regional, economic, and others) have been taken against the spread and impact of COVID-19 through the *Temporary Framework of the European Commission*. All these measures have been reported at the level of the European Commission by each Member State, the policy measures being of direct (potential) relevance for economic and fiscal surveillance. This includes measures on expenditure (eg higher health care expenditure, short-term employment benefits) or revenue (eg tax deferrals) of the budget, measures specific to certain sectors of the economy or regions, and measures to support lending to national economies (eg public guarantees, bank support measures, policy decisions of the national central bank).

Many Member States have also taken precautionary measures in the form of general guidelines for citizens, travel bans, school/university closure, the adoption of telework measures, etc., with macroeconomic and budgetary implications. In order to have a comprehensive overview of the measures announced or taken so far in the Member States, we will present in the paper the measures for each Member State.

*The quantification of these measures* and their expected impact on the government deficit and debt figures can be estimated, but the effects and impact of these measures could be analyzed in the next half of the year.

The impact of temporary state aid measures on the national economy through the intervention of the state and the European Commission

*The new Temporary Framework for State aid in the context of the COVID-19 crisis* (19 March 2020) was a direct form of support for the Member States, allowing them to provide direct subsidies of EUR 500,000 per company, state guarantees for loans and subsidized interest rates to mitigate the effects of COVID-19. In the context of the current EU state aid rules, Member States are required to notify the European Commission of the aid scheme they want to implement and obtain approval before actually implementing it. At the same time, it should be noted that there are exceptions to this general prohibition which allow certain types of aid to be granted in certain special circumstances, without prior notice.

Exceptions to the obligation to notify State aid schemes include the exception whereby State aid "supports the remedying of economic damage caused by natural disasters or exceptional occurrences". This exception allows, for example, the compensation of airlines for losses suffered due to the COVID-19 crisis.

The temporary framework related to the COVID-19 crisis was designed to directly support the real economy at the level of each Member State and indirectly through certain financial instruments, the banking sector (Dorn et al. 2020). However, as can be seen from the analysis per Member State in the new Temporary Framework shows that aid to banks to maintain the flow of credit to companies will also be considered as indirect aid to companies (since they will be aimed at combating illiquidity and supporting a harmonized fiscal response at EU level), some of which fall into the category of Expenditure Measures taken at the national level. Moreover, the new Temporary Framework allows the following types of aid, intended for companies that have suffered financial losses after December 31, 2019 (European Commission, 2020):

1. *Direct granting of financial support or tax advantage* - Member States have the possibility to set up aid schemes of up to EUR 500,000 to individual companies to meet urgent liquidity needs. This aid may be provided in direct form or as a tax advantage;
2. *State guarantee of bank loans*, direct support on the real economy and indirect financial-banking sector - Member States will be able to guarantee bank loans to companies or create a scheme for both investment and working capital. These schemes would be subsidized as a matter of priority, but the Commission may impose a maximum loan amount depending on the real liquidity needs of the companies. This category also includes the Package of measures adopted by the Government of Romania on March 18 a.c. and which also provides for an intervention fund of 10 billion lei to provide guarantees to SMEs for contracting loans to finance investments and working capital. The Ministry of Finance will guarantee 80% of the loans for SMEs, 90% of the loans for micro-enterprises, and will subsidize 100% of the interest associated with the guaranteed loans. On March 19, the authorities said that the Fund could be increased by an additional 5 billion lei, if necessary. An approximate estimate of the fiscal cost (subsidized interest): RON 250 million.
3. *Subsidized interest rates for loans secured by State guarantees* - Member States will be allowed to grant loans (for investments) using subsidized interest. The interest rate must be at least equal to the amount of the base rate set on 1 January 2020; the credit risk premium corresponding to the recipient. Different rates can be set for SMEs and non-SMEs. The

intention is to use a fixed base rate to provide certainty to the business environment in the Member States. As in the field of State guarantees, the Commission may impose a maximum loan amount based on the actual liquidity need of the beneficiary in order to prevent distortions of competition in the market and to obtain unfair advantages.

*4. Direct state aid to the banking sector* - Member States will be able to help banks and financial companies directly, which will also be considered as an aid to the real economy.

The temporary framework provides guidance and clarifies how the Member States should maximize the amount of aid granted to firms or agencies involved in the real economy directly or indirectly in the form of a larger volume of financing, risk portfolio aid, aid for higher guarantee requirements, for lower guarantee premiums or lower interest rates (S. López Piqueres, 2020). Moreover, in order to strike a balance at the European level, aid caps are introduced, as well as to limit undue support or residual financing for the banking sector.

*5. State aid schemes in the form of direct loans*, repayable advances or tax exemptions - these State aids could also be granted based on Article 107 (3) TFEU, in the form of temporary amounts, limited to a certain ceiling, but, under the current Temporary Framework, they can also be granted to enterprises and small companies in financial difficulty (lack of liquidity), if the Member State concerned considers that such measures are appropriate and necessary in the current exceptional circumstances induced by the COVID-19 crisis. As a result, the European Commission will consider such aid to be compatible with the provisions of the internal market and Article 107 (3) TFEU provided that simultaneous eligibility criteria are met: State aid does not exceed EUR 800,000, gross (ie before the application of tax exemptions or other tax burdens) per company; the aid is granted in the form of a scheme with an estimated budget; aid can also be granted to enterprises that were not in "difficulty" on 31 December 2019, but are currently in "difficulty" due to the negative effects of the COVID-19 crisis; the aid is granted until 31 December 2020.

Regarding the aid granted to companies that process or distribute agricultural and food products, there are, in the Temporary Framework, some special provisions. Thus, the aid granted to these companies is conditional on them not being part (in whole or part) of the primary production process and is not capped based on the price or quantities purchased by these traders from the primary producers. For the agriculture, fisheries and aquaculture sectors, it is specified that aid granted under the current Temporary Framework may be cumulated with de minimis aid, but not exceeding EUR 100,000 per undertaking.

To a large extent, all these support measures provided for in the *Temporary Framework of the European Commission* are found in the state aid schemes intended to support the real economy and have been adopted by our authorities.

## **Ways to attract European funds for the business environment through European Union funding programs**

The analysis of the measures taken by each Member State shows that very few states have resorted to the financing measures provided for in the Multiannual Financial Framework 2014-2020, among which we mention Bulgaria, Latvia, and Romania. Measures were taken by the Romanian authorities regarding the allocation of financial resources from European funds, respectively from the European Union Programs 2014-2020, namely: the use of an additional 350 million euros from EU funds for the purchase of Covid-19 tests, protective equipment and

mechanical ventilation equipment (March 24); The Ministry of European Funds announced on 25 March an additional allocation of EUR 682 million from EU funds to the Inspectorate General for Emergency Situations for the purchase of medical and emergency equipment; The EU funds minister said on March 18 that the government would use EUR 300 million. EU funds allocate funding to support measures for people who lose their jobs due to the COVID-19 crisis. The money will be attracted from allocations to the Human Resources Operational Program. The Minister of Regional Development said he would launch a line of funding to provide up to € 1 billion in aid to SMEs and EU funds. The measure is temporary and if the expected amounts are not enough, other sources of EU funding will be sought.

### **European investment plan for European green transactions - considerations**

*The European Green Deal is the European Union's (EU) new growth strategy to promote the transition to a climate-neutral economy by 2050. Confirming the importance of financial resources for such an objective majority, its investment pillar was the first initiative of the presented strategy. The European Investment Plan for Green Transactions, also known as the Sustainable Europe Investment Plan, aims to help finance a sustainable transition while supporting the regions and communities most affected by its impact. According to official documents issued by the European Commission and the European Parliament, by combining legislative and non-legislative initiatives, the plan addresses three issues:*

- 1) mobilizing funding of at least € 1 trillion from the EU budget and other public and private sources over the next decade;*
- 2) putting sustainability at the heart of investment decisions in all sectors;*
- 3) providing support to public administrations and project promoters to create a solid pipeline of sustainable projects.*

*The EU's Multiannual Financial Framework (2021-2027) has traditionally been a strong supporter of climate and environmental goals, with resources commensurate with the goal of facilitating a smooth transition to a carbon-neutral economy. The impact of the pandemic has raised concerns that decarbonization strategies could be derailed. However, more than ever, experts and stakeholders generally agree with their continued relevance, arguing that green investment from public and private sources must play a central role in any economic recovery plan at European level, and implicitly in local level.*

*The European Union (EU), is a supporter and leader in the fight against climate change at international level, is expected to further intensify its actions in this field during its institutional cycle 2019-2024. On 11 December 2019, in her first weeks in office, European Commission President Ursula Von der Leyen launched the European Green Deal as a new EU growth strategy to promote and facilitate the transition to a green, competitive and inclusive economy. Such a major economic transition requires huge financial investments, including to ensure that the process benefits all parts of society and to support the citizens and regions most exposed to the costs of decarbonisation (R. Waldholz, 2020).*

Based on the current target of reducing greenhouse gas (GHG) emissions by 40% by 2030 compared to 1990 levels, the European Commission has estimated that additional investments of € 260 billion per year will be needed. year to meet this target. Given that the environmental agreement intends to increase the intermediate target of reducing GHG emissions by at least

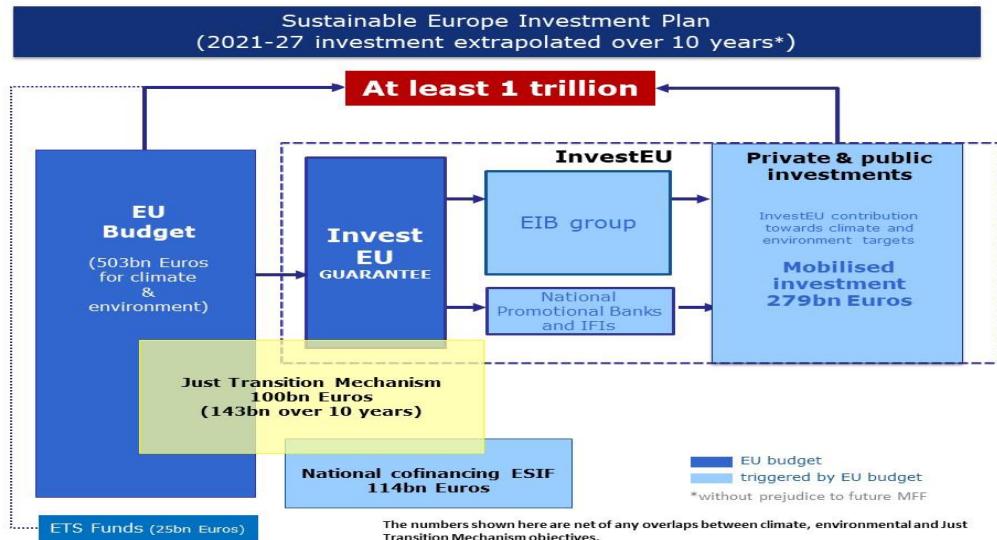
50% by 2030, the resulting financial needs will be even greater. For this reason, a measure planned under the Green Agreement is an investment plan to mobilize public and private funding towards the objectives of a fair transition to a green economy.

On 14 January 2020, *the European Commission published a communication detailing the European Investment Plan for Green Transactions*, also known as the Investment Plan for Sustainable Europe. The investment plan, which complements other initiatives expected under the European Green Agreement, aims to provide and use the necessary funding for the transition to 2030, seeking to put sustainability at the heart of both public and private sector investment and spending. In the period 2021-2030, the European Commission will mobilize at least € 1 trillion in sustainable investment by increasing resources for climate action within the EU budget and by using additional public and private funding. Part of the global resources will be specifically designed to support the regions most exposed to the challenges of the transition.

*The mobilization of financial resources worth 1 trillion euros* over ten years is part of the investment plan that has so far attracted the attention of the majority. According to official documents, about half of the amount would come directly from the EU budget, while other public and private sources would provide the rest, mainly through leverage. Furthermore, we believe that the European Investment Bank (EIB) should be a key partner in mobilizing additional funding, as it is expected to trigger investments of up to around € 250 billion (ie a quarter of the total) according to EU mandates under the investment plan. Given that the EIB has announced its own target of supporting € 1 trillion in climate action and investment in environmental sustainability over the next decade, it should be noted that the two targets only partially overlap. Therefore, it can be deduced that taken together, the European Investment Plan for Green Transactions and the EIB target should have the potential to provide around € 1.75 trillion in climate-related finance.

The overall level of investment for the *European Investment Plan for Green Transactions* requires further clarification on its time horizon, which covers the decade 2021-2030, in line with the fact that the current EU climate targets are for 2030. the next Multiannual Financial Framework (MFF) 2021-2027 is intended to cover a period of seven years, from 2021 to 2027. The European Commission has therefore calculated the total amount on the assumption that the next MFF, scheduled to start in 2028, will maintain at least the same level of ambition as its predecessor for climate finance for the last three years of the decade.

**Figure 1 – Financing elements making up at least €1 trillion over the 2021-2030 period under the European Green Deal Investment Plan**



Source: European Commission, 2020

The above figure shows the details of the total figure component of at least EUR 1 trillion. Furthermore, the European Commission presents this figure as clear from possible overlaps, taking into account the fact that different sources of funding and/or instruments may interact and contribute to a particular joint project or operation. In descending order of magnitude, five broad categories of climate finance sources would support a wide range of projects and contribute to the *European Investment Plan for Green Transactions*, as follows:

1. *EU budget totaling EUR 503 billion.* The European Commission has proposed that at least 25% of post-2020 MFF resources be allocated to climate-related spending, by incorporating climate considerations into numerous EU budget funds and programs. Tools that should make a significant contribution to this goal include:
  - a. funds under the common agricultural policy (CAP);
  - b. European Regional Development Fund (ERDF);
  - c. Cohesion Fund 2021-2027;
  - d. Horizon Europe Framework Program for Research and Innovation;
  - e. LIFE program; and
  - f. Connecting Europe Facility (CEF).

This approach is based on the experience with climate integration in the current MFF, below which the climate target amounts to 20% of total resources 2014-2020.

2. *The EIB Group and other investment partners in the context of InvestEU (EUR 279 billion).* The proposal for the MFF 2021-2027 includes the creation of the InvestEU program to

streamline in a single investment scheme the operations currently carried out under the European Fund for Strategic Investments (EFSI) and various financial instruments supported by the EU budget. Moreover, InvestEU would be the key tool to exploit the capacity of the EU budget to benefit from additional public and private funding for investments in the Union's internal policies, as well as its targeting of the dominant segment of business beneficiaries, namely SMEs. The Commission has proposed a 30% climate target for InvestEU operations. The Commission intends to develop financial products aimed at ecological, climate, and social sustainability within InvestEU. *The Multiannual Financial Framework (MFF)* has a focus on the regions and communities most exposed to the transition challenges, this mechanism would be structured on three pillars (see figure below):

**Figure 2 - Just Transition Mechanism over the period 2021-2027**



Source: European Commission, 2020

Just Transition Mechanism, with the following:

- a fair transition fund, with € 7.5 billion in new money by 2027 and a specialized fair transition scheme within InvestEU;

b. as well as a new public sector loan facility, with the EIB, to benefit from additional public funding.

Particular attention is paid to economic sectors that provide additional jobs, namely in the sector of activity the production of fossil fuels or related industries. Under cohesion policy, EU Member States will identify eligible regions and the envisaged transition process by 2030, in the fair territorial transition plans to be approved by the European Commission. Member States and regions will receive technical and advisory support from the Commission through a fair transition platform.

## **Discussion**

The paper is an empirical research based on official documents reported by European Union member states in the early days of the COVID pandemic. Moreover, this period coincides with the new financial programming period at European level, as well as with the launch of new strategic programs until 2030 and 2050, respectively.

As regards the general financial system, the *EU taxonomy* will play a major role in the measures designed to put sustainable finance at its center. The Commission will also explore how the EU taxonomy, originally designed for the private sector, could be used by the public sector beyond the scope of InvestEU to promote synergies. Besides, a renewed strategy for sustainable financing is envisaged, including the creation of a European Green Bond Standard as a tool for increasing public and private finance for sustainable investment.

Also, the Commission will develop a "Sustainable Procurement Screening" tool to provide tailored support to public investors in implementing their projects.

In May 2018, the European Commission presented its proposal for the new MFF which should cover the period 2021-2027, calling for an agreement to be reached before the 2019 European elections to avoid delays in the implementation of related instruments. Among other things, the Commission has proposed raising the climate integration target from 20% of total resources to 25%.

In the context of the *European Green Agreement*, climate integration in the EU budget should be further intensified, proportionate resources to facilitate a fair transition to a carbon-neutral economy. The call for further change towards climate transition included the call for a new and strengthened methodology for climate integration, with strong performance indicators and provisions to prevent any financial support for climate-damaging measures.

The emergence of Covid-19 and the declaration of a pandemic by the World Health Organization (WHO) in March 2020, caused significant uncertainty, triggering the announcement of packages of economic incentives to mitigate the social and economic impact of the public health crisis. An article published by the Peterson Institute for International Economics (PIIE) highlights the central role that public and private investment under the European Green Agreement must play in any recovery strategy. Drawing attention to the falling price of oil, the author recommends that the EU and its Member States keep fossil fuel prices for consumers at pre-crisis levels, through higher taxes, as a crucial measure for their decarbonisation efforts.

The goal would be twofold: on the one hand, the public sector would have additional revenue to combat the pandemic and its consequences; on the other hand, the move would prevent the

price of oil from falling. However, the Commission said it would continue its intensive work on climate issues. As previously planned, the Commission has launched a public consultation on the upward revision of the GHG reduction target for 2030, which aims to gradually increase the road to climate neutrality in 2050. Furthermore, the European Environment Agency (EEA) intends to assess the impact of the pandemic on production and consumption patterns once the crisis passes. The Multiannual Financial Framework 2021-2027 is directly linked to the attitude of Member States to be directly involved in the adoption of measures, so that from 2021, small and medium-sized enterprises can use the financing instruments so necessary for their sustainability.

In May 2020, European Commission President Ursula von der Leyen presented the Commission's proposal for an economic recovery plan following the € 750 billion coronavirus pandemic *Next Generation EU*, and according to the official communiqué, it includes the following :

The proposed recovery instrument, *Next Generation EU*, will have a budget of € 750 billion, which will be in addition to the long-term budget, according to President von der Leyen.

The money for the Next Generation EU will be raised by temporarily raising the own resources ceiling to 2% of the EU's Gross National Income. This will allow the Commission to use its very strong credit rating to borrow € 750 billion in EU financial markets for the next generation.

According to the official document published today by the European Commission on the proposed solutions, in addition to the *Next Generation EU*, a renewed EU budget is proposed, amounting to approximately 1.1 trillion euros in the period 2021-2027.

All money raised through the Next Generation EU and the new EU budget will be channeled through EU programs.

Next Generation EU money will be invested in three pillars, with € 500 billion in grants and € 250 billion in loans to the Member States.

*The first pillar is support for the Member States for investment and crisis resolution reforms:*

- A new Recovery and Resilience Facility with a budget of EUR 560 billion - distributed in grants and loans. It will support the Member States in implementing investments and reforms that are essential for a sustainable recovery. Member States will design their own national recovery plans, based on investment and reform priorities identified as part of the European Semester, in line with national climate and energy plans, fair transition plans and partnership agreements, and operational programs from EU funds.
- A new initiative, *REACT-EU*, will provide a supplement to cohesion support to the Member States with a budget of € 55 billion. It will be available from 2020 and will be distributed according to a new allocation key, taking into account the impact of the crisis. This will ensure that there is no interruption in funding for key crisis relief measures and the support of the most disadvantaged. It will support workers and SMEs, health systems, and green and digital transitions and will be available in sectors - from tourism to culture.
- To support the green transition, the Commission aims to provide additional funding for the Fair Transition Fund and the European Rural Development Fund. Cohesion policy programs will also be strengthened in the next EU budget period, to also allow for greater flexibility.

*The second pillar is to launch the EU economy by stimulating private investment:*

- A new Solvency Support Instrument will mobilize private resources to provide urgent support to healthy companies. Investments will be channeled to companies in the most affected sectors, regions, and countries. This will help balance the "game" conditions for those Member States that are less able to support through state aid. It can be operational from 2020 and will have a budget of 31 billion euros, which aims to unlock more than 300 billion euros in support of solvency. Guidelines will be developed to help align investment with EU priorities.
- The Commission aims to modernize InvestEU, the EU's main investment program, by doubling its capacity.
- In addition to the above, a Strategic Investment Facility will be created within InvestEU. It will be able to unlock investments of 150 billion euros thanks to the 15 billion euros brought to it by Next Generation EU. This will invest in strengthening our resilience and strategic autonomy for key technologies and value chains.

*The third pillar is about learning lessons about the crisis:*

The Commission intends to set up a *new autonomous EU4 Health program* with a budget of EUR 9.4 billion. It will invest in prevention, crisis preparedness, the purchase of vital medicines and equipment, as well as in improving long-term health outcomes. A number of other key programs will be strengthened to learn the lessons of the crisis, in particular rescEU and Horizon Europe.

In addition to the three pillars, the Commission aims to strengthen a number of other programs in the EU budget, compared to those discussed by the European Council in February. These include: Common agricultural policy; European Maritime and Fisheries Fund; The Single Market Program and programs that support tax and customs cooperation; Connecting Europe Facility; Erasmus +; Creative Europe Program; Digital Europe Program; European Defense Fund; Internal Security Fund; Asylum and Migration Fund, and Integrated Border Management and Pre-Accession Assistance Fund.

For the proper management of funding instruments through the programs, we believe that there should be a correlation and integration from and between the priorities of citizens and the business environment, respectively according to the figure below:

**Figure no. 3. Direct relationship to and from the Programs, Priority Directions and Projects of Citizens and the Business Environment in Europe**



Direct and permanent interconnection relations from and to the Programs, Priority Directions of each Member State of the European Union (27 states) and Concrete Project of citizens and business environment managed by the Managing Authorities of the European Commission and those managed at national level of each We believe that it is the solution to the management and orientation of funding sources towards European priorities in the context of current challenges at European and global level.

## Conclusion

The reduction of the impact of the COVID-19 crisis required a rapid, focused and coordinated response from all states in the field of state aid (as shown by the analysis of each Member State), as well as to support the most vulnerable economic agents (including companies in the public catering sector, services, etc.).

State support is required to be: aimed at reducing the disruptive economic effects of the epidemic, and clearly defined and limited to what is needed to address the acute economic crisis, excluding unjustified benefits for companies or the banking sector, to be borne by taxpayers in EU Member States.

In order to turn state aid into an effective tool for supporting the real economy across the EU, sufficient behavioral rules are needed for beneficiaries to prevent the abuse of state support, such as, for example, company expansion or aggressive market strategies. with the help of a state guarantee (Manta, O., 2017).

At present, in addition to their own efforts, it is necessary to exogenously finance the business of companies. For European companies, even in conditions of economic crisis, exogenous financing through bank loans is the main solution to cover the need for financing both the current activity and their own development projects;

In the period 2020-2030, companies will have the improvement of financing through government intervention, but especially through innovative financial instruments that are in line with the principles of green financing and are found in the Multiannual Financial Framework 2021-2027.

*Measures taken by other countries and which can be taken at the level of any state:* setting up a government and business unit COVID 19 (following the example of the Danish Government) in collaboration with relevant business organizations and labor market organizations to solve sectoral economic problems. Among the main objectives should be MicroFinance Fund with a potential loan threshold of € 50,000 and intended to finance small family businesses; support for programs for SMEs (packages of financial instruments, ie loans, and guarantees to support current activities and development of investment and technology plans in accordance with green investment support policies); launching state-subsidized leisure vouchers to help hotels recover from the crisis; tourism support (EUR 11 million). Additional budget for the implementation of actions to support tourism in June-September 2020, in cooperation with airlines and tourism organizers, as well as actions to improve initiatives to attract tourists between October 2020 and March 2021 (eg measures adopted by The Cypriot Government); postponement of tax and social security payments for the tourism sector until the resumption of activities (quarter III estimate of the year), sectors that were severely affected by the pandemic (eg tourism, restaurants, entertainment, sports, cultural services, transport) will be exempted from paying social security contributions, payroll taxes and small business tax. The employees' contribution will be reduced until the resumption of the activity (respectively quarter III of the year); and cultural support: emergency support funding for the most affected artists and entities (€ 1 million); Resolution mechanism for the protection of canceled cultural and artistic performances (Manta, O. 2020).

In a healthy and rational society, strategy and action are not subordinated to ideology, doctrine. The action must be based on the rules governing each case. There is something quite satisfying about expressing a political and economic belief such as: "I am absolutely on the side of the free initiative" (Galbraith K.J., 1997).

Our future research on European funding instruments, funding models and funding programs is based on references to current decisions at European level, all the more so as the seven-year programming period is very clearly regulated by EU directives and regulations. European Commission.

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## Construction of Reflexivity in Social Workers Working with Vulnerable Children in the Czech Republic

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### Abstract

Social work in the Czech Republic is confronted with the impact of global neoliberalism, which is manifested by privatisation of social services, individualisation of social risks and economisation. Reflexivity of social workers working with vulnerable children and their families has the potential to lead to a higher quality of social work, strengthening of social workers' identity, and empowering social workers to promote changes in everyday practice. Meeting this potential requires an understanding of constructing reflexivity by social workers, which is the objective of this paper. We used a qualitative research strategy, particularly group and individual interviews with social workers and their analysis using current approaches to grounded theory. Concerning data analysis, we found out that constructing reflexivity (nature and subject of reflexion) derives from the perceived roles of social workers (social worker as an ununderstood artist, social worker as mediator between social and individual, social workers as an agent of a (society) change, social workers as an agent of normalisation and reflexive professional). The acquired data, within the situational analysis, was inserted into a position map on the scale of holistic and technical reflection. The conclusion discusses the implication for practice and education in social work.

**Keywords:** Reflexion construction, role of social work, neoliberalism

### Introduction

Social work in the Czech Republic is confronted with the impact of global neoliberalism; which is a political ideology with an economising paradigm applying the laws of the free market. The practice of social work goes through the implementation of market-oriented values, procedures, and management of social services. Neoliberalism in social work is manifested, in general, by privatising social services, individualising social risks (although most risks occur structurally, their solution is expected on an individual level), and economising and rationalising (social work subjects to market demands and effective requirements).<sup>1</sup> As a result of global neoliberalism, legitimacy of social services is questioned and social workers

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<sup>1</sup> Similar impacts on social work outside the Czech Republic are described, e.g., by Ruch (2005), Ferguson (2005), Fook (2016), or Knott & Scrag (2016).

are perceived as those who artificially create problems and help those who do not deserve their help (Chytil 2007; Valová & Janebová 2015).

Contemporary social work in the Czech Republic thus works in the intentions of bureaucratic responses to uncertainty, complexity, risk, and anxiety, which are inherent in social work practice (Glumbíková, Vávrová & Nedělníková 2018; similarly see Ferguson, 2005); resulting in the loss of sense of perspective (Knott & Scragg, 2016).

Czech social work thus witnesses a reduction of beyond-rational and emotional behaviour aspects. A client is thus redefined from an "*individual with difficulties*" to a "*service user*" (see Ruch, 2005).

Authors Glumbíková, Vávrová & Nedělníková (2018) add that social work with vulnerable children accentuates the above-mentioned with: a) social workers work with the difficult life situation of, in many cases, traumatised children who may feel distrust toward adults; b) the existence of a series of inconsistent methodological guidelines from various institutions (f. e. the ambiguous definition of concepts, such as "*a vulnerable child*" or "*remediation of the family*") and the absence of methodological guidelines on topics such as the situation of unwanted children; c) the fact that child protection service workers need to retain the trust of the client on one hand and, on the other hand, collect evidence for the potential need to "*remove a child from a family*".

According to many Czech authors, a lot of social workers have adapted to the above-mentioned neoliberal trends in social work or they perceive them as unchangeable (Musil, 2008; Janebová, Hudečková, Zapadlová & Musilová 2013; Valová & Janebová 2015). Social workers thus perceive themselves as mere executors of the set social work, which come to them from the "*outside*" or "*above*" from those who do not have a direct relation to everyday practice of social work with a client (Gojová & Glumbíková, 2015; Glumbíková, Vávrová & Nedělníková 2018).

Within the context of the above-mentioned providing social work with vulnerable children and their families in the contemporary society, the ability of reflexivity seems to be the key skill in coping with the requirements of the current social work, which enables to deal with messy or complex problems (Mathias, 2015; Fook, 2016), to cope with uncertainties, doubts, and anxieties (Gardner, 2006; Holland, 2011; Fook, 2016), or to reveal challenging implicit discourses, knowledge system, assumptions, and values (Sanaya & Gardner, 2012; Fook, 2016). Reflexivity in social workers has the potential to improve social work, strengthen the identity of social workers, and empower social workers to promote changes in everyday practice in this profession. In order to strengthen the social workers' ability of reflexivity, it is necessary to understand constructing<sup>1</sup> reflexivity by social workers working with vulnerable children and their families in the Czech Republic, which is also the objective of this paper.

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<sup>1</sup> In our text, we proceed from the thesis of social constructionism, which understands social reality as a social construct created by interaction, communication, and language. The reality is experiential, passed on from generation to generation through traditions and socialisation (Gergen, 1999).

## Theoretical grounds: Reflexivity and its concepts

**Reflexivity<sup>1</sup>** can be understood as a) **ability to assess** the situation of a vulnerable child in the context of destabilisation or problematisation of what we consider knowledge and everyday defence of knowledge (see for example D'Cruz, Jones, 2007; Sanaya & Gardner, 2012); b) **process** of looking from outside on social and cultural artefacts and forms of thinking which saturate the practice of helping professions, and questioning and challenging processes which give a meaning to the world (see for example Ferguson, 2003); c) **theoretical approach** which enables social workers to deal with dilemmas and identify values and the "*important*" in their practice (see for example Fook, Gardner, 2007). Individual authors (Schön, 1983; Gould & Baldwin, 2004; Ruch, 2005; Taylor, 2010; Edwards, 2016) distinguish numerous perspectives/understanding a reflection.

Schön (1983) formulates two concepts of reflection: reflection-on-action and reflection-in-action. Reflection-on-action is a one-time activity that follows a meeting with a client or after some other practical activity. In the reflection-on-action, a worker studies why he/she acted, how he/she acted, what happened in the process, and considers the future strategy of acting.

Reflection-in-action is a concept that expresses the effort to continuously monitor, during the whole meeting, experiences, feelings, and concepts and theories which affect the currently ongoing meeting. It concerns a creative process which enables the social worker to get a situational view to be able to act with respect to the developing situation.

Knott and Scragg (2016) add that reflection in action requires the social worker to be experienced as it can be concerned more "*intuitive and artistic*" unlike "*technical competence*", which prevails at the side of a beginning social worker (Knott & Scragg, 2016). Gould & Baldwin (2004) extend the Schön's concept with a third component reflection before action, which consists of acquiring information before the client's visit and enables the worker to prepare for the client's visit and use his/her sources more effectively. Edwards (2016) extends the concept with a fourth component reflection beyond action, which "*can produce the type of learning that may be vital if students are to move beyond the limited confines of mechanistic reflection in the current form of reflection-on-action. With the inclusion of a story of others and their sharing, the development of professional practice can be enhanced through interconnection of the past, present, and future*".

Ruch (2005) talks about technical and holistically oriented reflection on social work. Technical oriented reflection on social work orientates on improving the practice by evidence what happened and how it happened. Holistically oriented reflection on social work focuses on

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<sup>1</sup> Differences between the terms reflexivity and reflectivity can be seen in the following categories a) **grounding** (term reflexivity stems from socially-scientific research, primarily qualitative); b) **relating to the present** (reflexivity is related to reflection in action, reflectivity is related with reflection on action; reflexivity is then a continuous process and reflectivity has primarily a one-time character); c) **application of a finding** (reflectivity creates a theory from one incident, which is then generalised and applied to other incidents or situations; reflexivity does not have this objective, it focuses on a critical attitude to creating knowledge in a given particular situation) (D'Cruz et al., 2006). In this paper, we will approach reflexivity and reflectivity according to Fook and Gardner (2007) and Fook (2016) as interchangeable.

improving the practice by searching the answer to the question of why it happened (trying to understand the meaning of action). Meanwhile, it perceives the uniqueness and complexity of each client and his/her situation, including irrational aspects. Holistic reflection is thus of an interpretative nature, is relational, dynamic, and situational; it also contains individual and structural aspects of each client's situation and stems from the respect to the practice wisdom. Taylor (2010) identifies, in accordance with Ruch (2005), technical reflection as empirically based focused on systematic and objective approaches (e.g. evidence-based practice). The author then distinguishes practical reflection, which focuses on our interactions and our expectations of interactions and on emancipatory reflection, which is concerned with power in interactions and trying to liberate people from constraints (e.g. an expert model situating knowledge and solutions in the hands of the practitioner).

## Methodology

The paper presents data from research in 2018 realised within a project of Students' Grant Competition (SGC) called Critical Reflexivity of Social Workers Working with Vulnerable Children and Their Families. The main research question was set as follows: How do social workers working with vulnerable children and their families perceive critical reflexivity and how do they perceive that critical reflexivity becomes evident in social work with vulnerable children and their families? The research was implemented using a qualitative research strategy, the communication partners (informants) were selected using an intentional selection through an institution (organisations providing socially activating services for families with children<sup>1</sup> in the Czech Republic). The criteria to include an informant into the research were set as follows: a) being active in terrain social work with vulnerable children and their families; b) length of practice in terrain social work with vulnerable children and their families of at least 12 months; c) voluntariness of taking part in the research. The research involved 12 communication partners altogether (11 women and 1 man) from three different towns in the Czech Republic. The average age of the communication partners was 30 years (the age ranged between 22 and 53 years). The average length of practice of the communication partners was 3.5 years (and ranged between 1 and 11 years). 3 communication partners had higher professional education, 9 communication partners had university education.

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<sup>1</sup> It concerned workers of socially activating services for families with children, specified by §69 Act 108/2006 on Social services as follows: "*Socially activating services are ambulant or terrain services provided to retired persons or disabled persons endangered by social exclusion. The service according to...includes the following basic activities: a) mediating contact with social environment: It primarily concerns support of family bonds with broader social environment – with relatives, social and community (local) events, relation to peer and self-helping activities, support of participation in cultural and other events (search, accompaniment, etc.); b) social therapeutic activities: It concerns activities with children and adults focused on the development of personality, understanding oneself and situation in which the clients are, sharing and emotional support, activities focused on the support of sibling relationships and relationships between parents and children, support to understand and make clear life situations, ways of solutions and risks; c) help with assistance with asserting rights, justified interests and looking after personal matters.*" Socially activating services cooperate with other services and the Body of social and legal protection of children, which is the state body with regional and city branches designed to protect the rights and interests of a child.

The data was collected using semi-structured interviews and subsequent three focus groups (N=4, N=5, N=3), which were systematically focused on: perception of reflexivity in the practice of social work with vulnerable children, implemented interventions in the practice of social work and relating to them, own relating of the social worker to the practice of social work, perceived context of implementing social work in the Czech Republic, and anticipated future development of social work with vulnerable children in the Czech Republic. The data was word-to-word transcribed and anonymised. The data was processed using current approaches to the grounded theory of K. Charmaz (2003) and A. Clarke et al. (2018).

The data analysis included initial coding; focused coding (which is based on searching similarities and selecting the "*most useful*" codes and their re-testing from the point of view of their relationship to other open codes), and intentional coding (selective phase where the most significant codes were used to synthesise, organise, and integrate a large volume of data). Next phase of coding was axial coding, which leads to the creation of categories (re-structuring data which was decomposed during open coding and thus it gives it relations) (Charmaz, 2003). Then we used the procedures of a situational analysis A: Clarke, particularly position maps, which graphically depict partakers' positions or phenomena in relations to the cross-section of (identified) factors affecting these positions (Clarke et al., 2018).

Regarding the procedures carried out within the research, they were all in accordance with the Ethical Principles of Psychologists and Code of Conduct, which were approved by the American Psychological Association (APA, 2010). Every communication partner was familiarised with research objectives; every communication partner provided the informed consent; participation in the research was voluntary and the researchers committed themselves to keep confidentiality.

Regarding the research limits, it is important to reflect that the data was collected using interviews with the communication partners the premise of which was the ability of reflexivity of communication partners. The data in its nature is rather a perception/opinion of social workers on the reflexivity and their practice rather than a description of a real state of reflexivity in the practice of social work in the Czech Republic. Regarding the data limits, it is also necessary to reflect possible social desirability in the communication partners' expressions. Regarding the support of data validity (with respect to own reflexivity of the social workers), the data was analysed using the mechanism of mechanism inter-coder agreement.

## Data analysis

The data analysis, whose aim was to understand the construction of reflexivity in social work, revealed that social workers working with vulnerable children and their families<sup>1</sup> construct reflexivity reflexivity (nature and subject of reflexion) in social work differently in several perceived roles of social worker in social work. It concerned the role of: social worker as an ununderstood artist, social workers as a mediator between social and individual, social workers as an agent of a change (in society), social workers as an agent of normalisation and

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<sup>1</sup> Social workers do not explicitly state in their narrations the uniqueness of the construction of reflexivity in relation to the target group they work with; however, it is important to perceive that their construction of reflexivity stems from their everyday practice of social work with vulnerable children and their families.

a reflexive professional. However, the individual role can be perceived as theoretical constructs which do not exist so clearly, but which intermingle and intersect in the personality of (one) social worker.

### **Social worker as an ununderstood artist**

In the role of a social worker as an ununderstood artist (creative role), social work is perceived as the **possibility of self-realisation, sense, and mission** "For me, it's a kind of self-realisation." (KP1<sup>1</sup>) "I see it as something like my life mission..." (KP4)

Social work in the role was perceived as a **lonely profession where the working tool is the social worker**. "It's a very individual work, the personality of the worker in that family is very important there ... one is alone for that situation." (KP1) Social work, however, was perceived as an **intuitive profession**. "Often very intuitively that one cannot say how the model is called in a textbook, but it is used like that." (KP6) The communication partners in this role agreed on the fact that social work is a **continuous process of learning**: "As I do not have such long practice, I take it as I'm learning all the time." (KP2)

The role of an ununderstood artists relates to the feeling of **ununderstanding** and **undervaluing**, both by society and clients. "The work itself, with this group of people, was ununderstood directly... that I'm a terrain social worker, their eyebrow rises. And when you add that you focus on families with children, for example Gypsy families, that you help them with benefits and accommodation, ununderstanding again." (KP9)

**The definition of this role of a social worker reveals that social workers' reflexions primarily focus on the personality of a social worker.** Social work was perceived in the intentions of **priceless** and often **intransferrable experience, which led to the change of the personality of its executor**. "I've always been such a pro-social character, but it is a profession which affects everyone; one is more humble, appreciate what he/she has when seeing people around with their existential problems. And material possessions, greed, and consumerism which predominates in our society, I think it does not touch me so much. I don't need to race for such conveniences... it's rather humbleness." (KP1)

### **Social workers as a mediator between social and individual**

Within this role, the communication partners perceived the role of a social worker as a certain balance of the non-existence of collective responsibility in relation to unfavourable social situations and the pressure on individual responsibility for failures; their **reflexion was then primarily directed to the setting of contemporary society**. "In many clients, it can't be said who's guilty... mostly it's the society and the setting that we have here; for example there are no town flats and multiple families then end up in quarters as they can't find such big flats..." (KP12)

In the context of this role, the communication partners reflected that social work is perceived as **necessary even in "problems that get worse"**. "Problems of those clients are worse, I think." (KP7) "As the population is getting older, social work is really more and more needed, no one else can take care of those people." (KP6)

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<sup>1</sup> Abbreviation KP means communication partner, the number means identification of individual communication partners.

### ***Social worker as an agent of a change (in society)***

The role of a social worker as an agent of a change in society is defined by reflexion of the **absence of a system approach to solving problems**. In this context, one of the communication partners reflected the current situation in the area of social housing "*At the moment, I think that most of our practice is influenced by the pressure to close down the quarters and change it to rental housing. Many families cannot afford it. So closing down the quarters pushes them to the hands of resellers of these flats as they cannot go anywhere else.*" (KP8) Another communication partner pointed out the setting of the system of benefits "*I see it that the benefit system is badly set. Those who don't work often receive more... it's not motivating.*" (KP5)

Other reflexions were focused on "**problems with legislation**" which **is not set in social work "bottom-up"**. "*The biggest problem is in laws. Seems like... social workers do their work well, but it is the state which throws a monkey wrench into the works.*" (KP5) „*And the best should be that those up should try it, touch this work, they should change...*“ (KP7) Concerning this setting, the communication partners pointed out increasing **bureaucratisation** of social work, which sucks out the time for direct work with a client. "*Half of the work time is paperwork about what I do... I'd rather work with clients, but can't – have to write: I did this and that. Reports. I have to prove to somebody what I do so that someone knows as we are paid. This really annoys me.*" (KP6) Another communication partner was critical to the system of **setting interventions within a project**, where it is necessary to meet obligatory quota. She pointed out a paradox in social work as the objective of social work is that a client does not need the social worker in the future, but the social worker needs them to fulfil this profession. "*But we need the clients... because we need to meet the interventions. I reckon that sometimes there's a kind of contradiction as I need to gain these interventions and I'm happy that the client does not do it by himself/herself because I need to have these interventions and if the client did many things by himself/herself, I can't gain the interventions.*" (KP10)

Social workers stated that due to the above-mentioned, **they lose the sense of social work**. "*I think that there is a lack of the view from the practice point of view. It's done by people behind a table. We have to follow certain norms and regulations and I have to spend certain hours in the terrain and then write individual plans which the client changes our times during one meeting. I understand that we have to do it, so I do it, but I see no sense in it.*" (KP11)

Social work in the role of a social worker as an agent of a change in society is perceived as a filed having a certain **potential**. "*I still think that social work does not achieve what it could achieve.*" (KP1) "*Social work is quite developing thanks to those projects and so on. Yes, it's going up, but still does not meet its potential.*" (KP2)

### ***Social worker as an agent of normalisation***

The role of a social worker as an agent of normalisation is a position when the objective of social work is to "*reform*" the client according to valid norms in the society. Social workers in their narrations perceived this role as oppressive and they rather connected it with expectations of the society towards social workers and worries of clients from the scope of work of a social worker. The communication partners related this role with the **check of the**

**"asocial". "Some (clients) take us as the tool of such a check and that we go there to take their children away."** (KP8)

The check of the "asocial" was related by the communication partners with a perceived **discourse of merit**, which appears in the contemporary society. *"The public doesn't see it that sometimes they (note: clients) got into it by their own mistake, sometimes it was just a coincidence of many circumstances."* (KP4) *"And one friend tells me that she does not understand how I can help such people as they got into the situation by themselves."* (KP11)

In this role, social workers mostly relate reflexivity with the process of executing social work, particularly it is perceived as a tool of **setting boundaries of work with a client, freeing from work with a lie from the client's side**. *"I free myself for example like that... I just simply take it that it is work and I won't go to have a coffee with the client, I just do my work and I give the man what I can give."* (KP3). In this context, the communication partners considered reflexivity as a tool to set the **level of trust in a client**. *"Those are really beginner's mistakes with the trust... , one wants to see the people positively, one wants to believe."* (KP10) Another communication partner perceived critical reflexivity as a tool of work with a **failure to meet what was agreed on with the client**. *"They want something, we work hard on it and I see that they haven't done a single thing they were supposed to do... go somewhere with son's application for school... I'm always so surprised that those people want something, but then don't do anything for that."* (KP10)

### **Reflexive professional**

The role of a reflexive professional can be related with holistic reflexivity, which refers to **improving the practice of social work** by its reflexion. This reflexion is focused on the uniqueness of each client and each situation in its individual and structural aspects. Reflexivity in this context is understood as a "*tool of healthy doubts*". *"But I think that if a social were one hundred per cent sure about what he/she is doing, it would not be good either..."* (KP8) Reflexivity was also perceived as a **tool of work with own** mistake *"it is a mistake... meaning that I didn't behave professionally, but the client didn't consider it a... misstep... I solve this situation differently... I get back to this topic and we discuss it a bit differently."* (KP1)

Reflexivity in the role of a reflexive professional is understood as a **tool of understanding client's behaviour**. *"I might have been disconcerted by client's reaction as I didn't see any reason for that. But looking back I thought... yes... that there might have been some reason..."* (KP2) This understanding will subsequently result in the **avoidance of taking a judging** attitude towards the client. *"I think that clients really appraise I consider it quite crucial for me that they see some understanding from the social worker's part and that there is no a priori judgement of the behaviour."* (KP4) Reflexivity was also perceived as a **tool to accept the client's norm by the social worker**. *"Just get closer to the level of the family, don't criticise. I take it as it is. I perceive it that the client needed it. If they knew to do it better, they would do it better."* (KP6)

Reflexivity was also perceived as a tool enabling to work with a client in (more) **empowering ways**. *"We come to a mutual conclusion how to solve it... I don't help them indeed... rather motivate."* (KP6) *"I see myself not as a directive tool. If a client tells me that he/she doesn't want to take this alternative to solve the situation, I can't force them. I can only explain the situation in the case that they wouldn't like to solve the situation, where it might end up."* (KP8) The communication partners perceived reflexivity as a tool supporting an approach focused on the

**support of competencies and strengths.** *"An approach as something like praising... not praising like a small child, but rather highlight what they did."* (KP9)

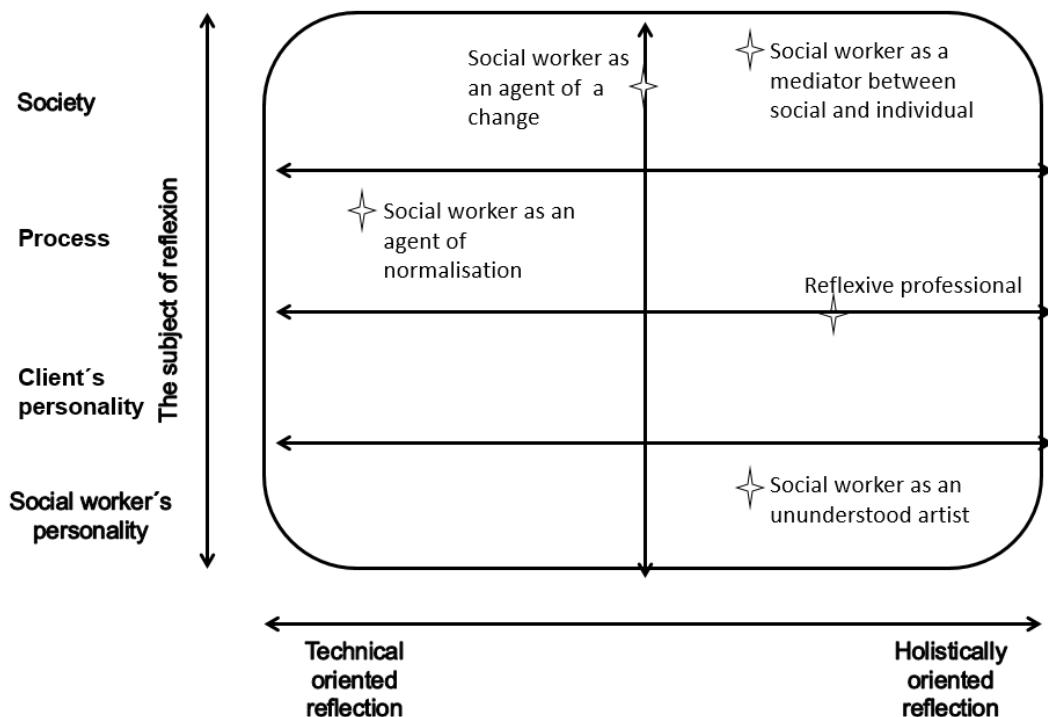
In the narration, the communication partners perceived the role of a reflexive professional as a certain **ideal** to head towards. *"I would like to be that empowering social worker who is aware of and works with the whole system, but there is a long journey and a lot of support."* (KP1)

### ***Positional map of social workers' role related to the subject and nature of reflexion***

The above-mentioned roles of social workers (partakers') were related with the theoretical concept by Ruch (2005) on technical-oriented and holistically-oriented reflection (nature of reflexion) (identified factors affecting roles of social workers).

Thus, a positional map was created. It depicts the above-mentioned roles of social workers according to the subject of reflexion (society, process, client's personality, worker's personality) and according to the use of technical-oriented reflection a holistically-oriented reflection (nature of reflexion).

Scheme 1: Positional map of social workers in relation to the subject and nature of reflexion



*Source: Own construction.*

The above-presented positional map reveals that two roles of social workers (Social worker as an agent of a change and Social worker as an agent of normalisation) can be perceived in

the concept of Technical-oriented reflection, when their reflexion stems from the practice evidence and systemic and objective approaches. The subject of a Social worker as an

Agent of a change is society while the subject of a Social worker as an agent of normalisation is the process of social work. Three roles of social workers (Social worker as a mediator between social and individual, Reflexive professional and Social worker as an ununderstood artist) can be perceived within the concept of Holistically-oriented reflection. The social worker in these roles focuses on improving the practice using reflexion of searching the answer to the question why happened what happened (they try to understand the meaning of happening) while perceiving the uniqueness and complexity of each client and each situation, including irrational aspects.

### **Discussion and implications for social work**

The data analysis revealed that constructing reflexivity depends on the roles perceived by social workers. Each created role, however, must be perceived as a certain (ideal) theoretical construct as roles of social workers are of an intersectional nature and thus intersect and mingle depending on a specific context of social work. The above-presented positional map shows that the identified roles of social workers fluctuate in a certain continuum of "*doing social work*" and "*being a social worker*" (see Ruch, Harrison, 2007). An important finding is that the role of a reflexive professional was marked in the narrations as a certain "*ideal*" to head towards rather than a matter of everyday practice. When defining the role of a reflexive professional, it is obvious that reflexion has the potential to create more inclusive and less judging practice (similarly see Jones, 2010); to work in more empowering ways (similarly see Fook, 2016); and to create practice less focused on finding a solution and more on building clients' abilities (Fook & Gardner, 2007; Fook, 2016).

Reflexion in the created roles related to various subjects in social practice, such as society, process, personality of a client, or personality of a worker. The research results thus show that reflexion has a wide range of focus which has a potential to empower social workers in relation to a possible change in the setting of social work practice. It seems that it is thanks to reflexion that social workers can become aware that they are not only mere executors of the "*above*" given setting, but their role in this process is more active. They are implementers who develop own coping strategies helping them, within limited resources, manifest own decision making. It is those processes that enable social workers to shape public policy right when interacting with clients (Lipsky, 2010).

In the context of the above-mentioned, it can be stated that strengthening of the ability of holistic reflexivity of social workers (not only in the Czech Republic) should be included in a standard curriculum of social workers (similarly see, for example, Tate & Sills, 2004; or Guransky et al., 2010) and to further education of social workers working with vulnerable children and their families. The first step to include this in the Czech Republic was understanding how Czech social workers construct reflexivity in the practice of Czech social work. The above-stated data shows that integrating into education should have the nature of offering opportunities and platforms to reflect experience from the practice. A roofing concept of this education should be experiential learning, which is based on sharing experience. A particular form of integration into education can be supervisions, intervisions, team meetings, or, for example, using reflexive diaries (similarly see Barlow & Hall, 2007; Grant et al., 2014;).

## Conclusion

We gained understanding about constructing reflexivity by social workers working with vulnerable children and their families in the Czech Republic, which is also the objective of this paper. The data analysis revealed that constructing reflexivity depends on the roles perceived by social workers.

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## The Multiplier Effect of European Union Funds in the Alentejo Region, Portugal, Between 2014-2020

**Diamantino Ribeiro**

### **Abstract**

The Partnership Agreement established between the European Union and the Member States for the implementation of the European Structural and Investment Funds for the period 2014-2020 has come to an end. It is, therefore, important to understand what impact the Partnership Agreement had on public and private investments in the different Portuguese regions. Support for regional investment has allowed the construction or modernization of collective infrastructures, such as schools, promotion of cultural and natural heritage, investment in energy efficiency, investment in Information and Communication Technologies (ICT) for public services, develop research and development initiatives, as well as urban rehabilitation and mobility. This also includes investments of intermunicipal and business nature. This paper is part of an extended study that analyses the multiplier impact of the application of European Union funds in public and private investment in the 7 Portuguese regions: Porto and North of Portugal, Centro, Lisbon and Tagus Valley, Alentejo, Algarve, Azores and Madeira. In this article we analyse the multiplier impact of the investment of the European funds allocated to the Alentejo Region, in Portugal, under the H2020 Program until the month of March 2020.

**Keywords:** Alentejo, H2020, European, value capture.

### **Introduction**

The Multiannual Financial Framework (MFF) 2014-2020 proposed by the European Commission estimated to fund more than 1 billion Euros (1.08 % of Gross Domestic Product - GDP) (Parlamento Europeu, 2013).

Portugal was to receive around 25 billion Euros in operational programmes, regional programmes on the mainland (North, Centre, Lisbon, Alentejo and Algarve) and as well as in programmes for the Autonomous Regions of Madeira and Azores, (Assunção, 2013; Francisco, 2016; POISE, 2014).

The European funds purpose is to contribute to the achievement of the priorities defined by the EU , such as, sustainable and inclusive economic growth, job creation, research, etc.. (Commission, n.d., 2011a, 2011b; Europeia, 2015; Nathan & Scobell, 2012).

The MFF regulation also provides for some special instruments, which give the Union the possibility to react to unforeseen circumstances or to finance expenditure for clearly defined purposes, which cannot be financed under the MFF ceilings. Special instruments are the Emergency Aid Reserve, the Solidarity Fund, the Flexibility Instrument, the European Globalisation Adjustment Fund, the Unexpected Margin and Specific Flexibility to Combat

Youth Unemployment and Strengthen Research (Assunção, 2013; Commission, 2014; Silva & Matos, 2018).

The five main Funds listed below work together to support the economic development of the various Member States: 1. European Agricultural Fund for Rural Development (EAFRD), 2. European Social Fund (ESF), 3. European Maritime Affairs and Fisheries Fund (FEAMP), 4. European Regional Development Fund (ERDF), 5. Cohesion Fund (CF).

Through these financial instruments the EU aims to support innovation, training and education in cities and rural areas, to reduce unemployment, boost competitiveness, stimulate economic growth, promote entrepreneurship, combat social exclusion and contribute to the development of a more resource-efficient and environmentally friendly economy (Comissão Europeia, 2014; Commission, 2011b; Parlamento Europeu, 2013).

### **Methodology**

The main questions to be asked by this study are: a) What is the amount invested in the regional economy for each euro of support allocated by the European Union through the H2020 program. b) What is the percentage distribution of community support versus investment for each area of intervention? C) What is the execution rate when there is less than one year to the end of the program?

Data was retrieved on the H2020 Alentejo Region web page<sup>1</sup>. The analysis was structured in two levels. The first regarding the axes of intervention, thematic objectives, and investment priorities; the second according to the following themes: human capital, business competitiveness, social inclusion and employment, sustainability and efficiency and technical assistance.

After collecting, organizing and processing the data, we obtained the results that allowed to answer the study's questions.

### **Partnership Accord - Portugal 2020**

The Partnership Agreement established between Portugal and the European Commission (Portugal 2020), brought together the actions of the 5 European Structural and Investment Funds - ERDF, Cohesion Fund, ESF, EAFRD and FEAMP - in which the programming principles were defined, in order to establish the economic, social and territorial development policies to be developed in Portugal, between 2014 and 2020 (AD&C, 2014; Assunção, 2013; Estrategor, 2018; POISE, 2014). These programming principles were aligned with Intelligent, Sustainable and Inclusive Growth, as per Europe's 2020 Strategy (Comissão Europeia, 2014; Parlamento Europeu, 2013).

Portugal should receive about 25 billion Euros, over the 7 years of the program; for that purpose, the government defined Thematic Objectives (TO) to stimulate growth and job creation, the necessary interventions to achieve them and the expected results with this funding: stimulating the production of tradable goods and services; increasing exports; transferring results from the scientific system to the productive framework; complying with compulsory schooling up to the age of 18; reducing levels of early school leaving; integrating people at risk of poverty and combating social exclusion; promoting sustainable development from the point of view of efficiency in the use of resources; strengthening territorial cohesion,

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<sup>1</sup> Disponível em: <http://www.alentejo.portugal2020.pt/>. Consultado em 20.12.2020

particularly in cities and low-density areas; rationalizing, modernizing and empowering the Public Administration, are the main objectives of the policies to be pursued in Portugal 2020 (AD&C, 2014, 2015; Estrategor, 2018).

The programming and implementation of Portugal 2020 was organized in four thematic areas: 1. Competitiveness and Internationalization; 2. Social Inclusion and Employment; 3. Human Capital; 4. Sustainability and Efficiency in the use of resources. It also considered the transversal areas related to the Public Administration reform and the territorialisation of the interventions (AD&C, 2015).

In terms of eligibility for the European Investment Funds (ERDF, CF, ESF, EAFRD and FEAMP), the 7 regions of Portugal were divided into:

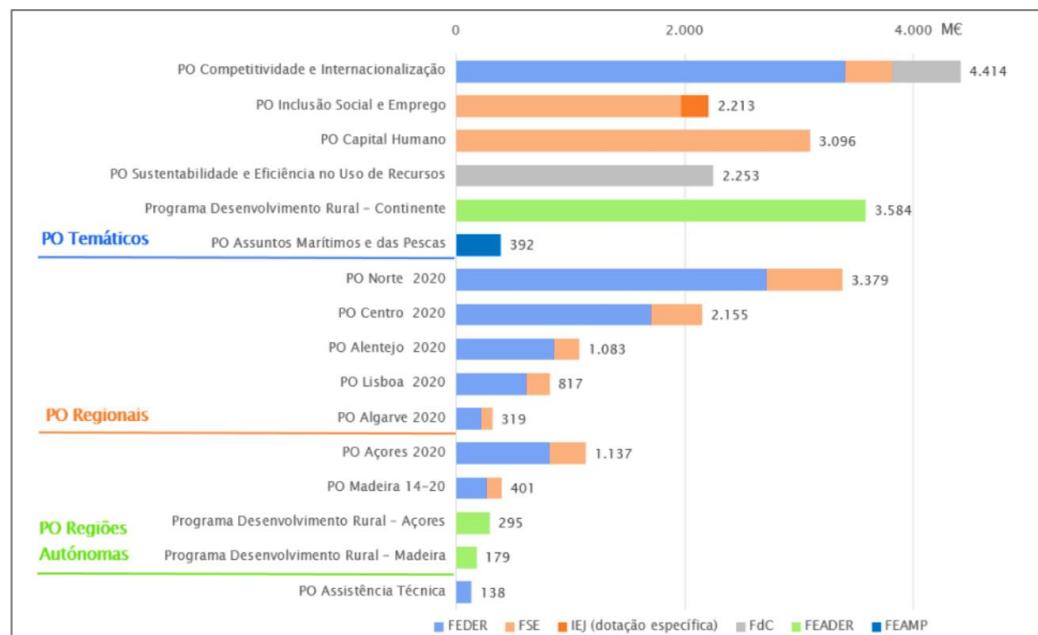
Less developed regions (GDP per capita < 75% EU average): North, Centre, Alentejo and Autonomous Region of the Azores (RAA) - Co-funding rate of 85%;

Regions in transition (GDP per capita between 75% and 90%): Algarve – Co-funding rate of 80%;

Most developed regions (GDP per capita > 90%): Lisbon and Madeira Autonomous Region (MAR) Co-funding rate of 50% (Lisbon) and 85% (MAR).

The funding allocated to Portugal was to be distributed among each of the 16 Operational, Thematic and Regional Programs, as per the graphic 1:

Graphic 1 - Operational, thematic and regional programs



Source: Portugal 2020<sup>1</sup>

<sup>1</sup> Retrieved from <https://www.portugal2020.pt/content/o-que-e-o-portugal-2020>. Last accessed: 9/9/2020

## The Alentejo Region

The Alentejo region is located in the center-south of Portugal. It comprises the districts of Portalegre, Évora and Beja and the southern half of the district of Setúbal and a part of the district of Santarém, thus being the largest region of Portugal in terms of area.

It is divided into 5 sub-regions and comprises 58 municipalities and about 400 parishes:

Alto Alentejo - 118 352 inhabitants ( $6.230 \text{ km}^2$ );

Central Alentejo - 166 706 inhabitants ( $7.393 \text{ km}^2$ );

Alentejo Litoral - 100 895 inhabitants ( $5.308,11 \text{ km}^2$ );

Baixo Alentejo - 126 692 inhabitants ( $8.505 \text{ km}^2$ );

Lezíria do Tejo - 247 453 inhabitants ( $4.275 \text{ km}^2$ ).

Figure 1 – Alentejo Region



Source: Roteiro do Alqueva<sup>1</sup>

According to the local Coordination Commission (CCDR-Alentejo), the region's seafront limit has a significant and diverse marine resource potential to develop new and emerging activities such as energy production, biotechnology and chemistry, as well as research and development of new alternatives in the sectors of food, medicine, transportation, tourism, health, among many others.

The preservation of the Alentejo coast is a factor of competitiveness in relation to other tourism destinations, particularly with regard to new trends in water sports and sports

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<sup>1</sup> Retrieved from: <http://www.roteirodoalqueva.com/mapa-do-alentejo>. Last accessed 20.12.2020

tourism, especially because the territory has an appealing landscape, combining the architectural heritage and the surrounding natural spaces as a result of the delimitation of nature protected areas and reserves.

In addition, the agricultural potential resulting from the exceptional soil and climate of the Alentejo Coast, namely for fruit and vegetable production, may turn it into a major supply center for European markets.

The biogeographic situation of crossing Mediterranean and Atlantic environments and the ancestral occupation of the territory on a scale of medium and low density were shaping natural systems through a balanced management of resources that originated a wealth of landscapes and biological diversity of European importance. The uniqueness and harmony in the relationship between the built heritage and the surrounding natural spaces, give Alentejo a genuine and recognized identity and authenticity.

The Alentejo landscape, of national and European reference, brings together the conditions to act as a biogenetic and amenity repository, in a multifunctional and sustainability perspective, combining the concerns of protecting nature and ways of life with socio-economic dynamics.

Alentejo asserts itself as a sustainable territory with a strong regional identity, supported by a polycentric urban system, guaranteeing adequate levels of territorial cohesion and affirming a reinforced integration with other national and international spaces. Territorial sustainability is based on the valorization of endogenous resources, namely natural and landscape values and the development of increased levels of strategic coordination and functional cooperation. The main urban centers are the structuring poles of regional cohesion and competitiveness and the reinforcement of the polycentric character of the regional urban system also involves the strategic strengthening of sub-regional urban systems, making the most of resources and affirming territorial specializations, in order to guarantee a more sustainable development and a balanced and sustained growth in the region.

A significant set of public and private investments, within the region reinforce the potential to attract new business investments, creating objective conditions for a new positioning of the Alentejo in terms of international economic relations (CCDR-A, n.d.).

## **Operational Program Alentejo 2014-2020**

With an allocation of more than €1,082 million, out of which 903.118.506 from the European Regional Development Fund and €179.82.,865 from the European Social Fund for the 2014-2020 period, the program aimed to promote the competitiveness of the regional economy, sustainable development and internal cohesion in the region, as well as the region's capacity to contribute to the achievement of the main national and European development objectives. The European Union's objectives are: to provide an overall investment in the region of € 1,310.731.737 over the years, i.e., €1 of funding should generate a regional investment of €1.21.

### **5.1 Main objectives**

The Operational Program would help the promotion of the competitiveness of the regional economy and sustainable urban development and internal cohesion in the region, as well as the region's contribution to the achievement of the main national and EU development objectives:

35% of the OP resources are allocated to support competitiveness and innovation in SMEs.

Over 6% of the resources will boost research and technical development (RTD) and innovation, helping the country reach its national Europe 2020 target by increasing its share of GDP spent on RTD from 2.7% to 3.3% (1.5% in 2011). In particular, the contribution of the OP is expected to foster knowledge transfer in RTD and innovation to SMEs.

Around 7.5% will be dedicated to promoting employment and the valorization of endogenous resources - contributing to reach the national Europe 2020 target of 75% employment for the 20-64 age group (69.1% in 2011).

More than 12% will be dedicated to promoting education and qualification - helping the country reach its national Europe 2020 target to reduce early school leaving to 10% (from 23.2% in 2011).

Nearly 12% of resources will be used to promote sustainable urban development.

Almost 15% of the OP funds will support the shift to a low carbon economy (investments in energy efficiency and sustainable mobility); these funds will contribute to Portugal's national Europe 2020 target of 31% of energy derived from renewable resources (compared to 27.3% in 2011). To ensure the sustainable development of the energy sector, the support will improve energy efficiency and sustainable mobility.

In the OP, the thematic concentration of the ESF is 17.7% of the total ESF allocation. The ESF share of the OP is 17.1%.

## Priorities

The Program will focus on 9 main priorities: 1. Competitiveness and Internationalization of SMEs; 2. Education and qualification; 3. Research, technological development and innovation; 4. Sustainable urban development; 4. Employment and economic valorization of endogenous resources; 5. Cohesion and social inclusion; 5. Energy efficiency and mobility; 6. Environment and sustainability; 6. Institutional capacity building and administration modernization.

## Expected Impacts

Increase in the value of exports as % of turnover of SMEs to 15%; 65% of SMEs with 10 and more employees involved in innovation activities; 92% of students benefiting from updated primary and secondary choices; Increased capacity of the education or childcare infrastructure to reach another 4.777 children; Support for about 80 research projects in the region; 22 more companies cooperating with research institutions; Support for about 25 sustainable mobility projects in the region, including bicycle lanes and development of intelligent public transportation systems; Support to the rehabilitation of about 734 households in urban areas; The entire population should benefit from improved health services, including support to 80 public health and social services; Contribute to an annual decrease in greenhouse gas emissions of about 17.323 tons CO<sub>2</sub>; Facilitate the entry of about 6.400 people into socially needed jobs; Increase in the % of households with improved energy classification; Support for about 5.000 SMEs, with subsidies and other repayable forms of support; Contribution to create about 4.250 direct jobs.

## Analysis and results as of March 31st, 2020

Up until March 31<sup>st</sup>, 2020, a total of 3.796 projects were approved, generating a total investment of 1.373 million euros, with community support of 967 million euros (70.4%), as shown in Table 1 below:

Table 1- Approved projects

Theme	Nr. of Projects	Investment amount	%	EU Contribution	%	Investment per 1 € of incentive
Human Capital	158	93 683 952	6,8%	77 143 019	8,0%	1,21 €
Business Competitiveness	1 160	684 246 493	49,8%	436 731 005	45,1%	1,57 €
Social inclusion and employment	1 813	247 331 632	18,0%	177 918 810	18,4%	1,39 €
Sustainability and efficiency	637	324 474 537	23,6%	255 136 629	26,4%	1,27 €
Technical assistance	28	23 633 958	1,7%	20 375 175	2,1%	1,16 €
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Total	3 796	1 373 370 572	100,0%	967 304 638 €	100,0%	1,42 €

Source – CCDR Alentejo 2020<sup>1</sup>

The Human Capital investment funded 158 projects, worth €77.143.019, generating an investment of €99.683.952.

In the area of Business Competitiveness, which includes Research, Development and Innovation, the 1.160 business projects (49.8% of the total) represented an investment of approximately €684 million with a European contribution of €436 million.

Support was given to 1.813 projects in the area of Social Inclusion and Employment for a total of €177 million, generating a regional investment of €247 million.

For Sustainability and Efficiency, 637 projects were supported for a total of €255 million, generating a regional investment of €324 million.

Finally, 28 projects were supported in the area of Technical Assistance for a total of €20 million, generating a regional investment of €23 million.

The results indicate that each Euro of support granted by the European Union through H2020 had the following impacts:

Human Capital = €1.21;

SMEs Competitiveness = €1.57;

Social inclusion and employment = €1.39;

Sustainability and resource efficiency = €1.27;

<sup>1</sup> Retrieved from: <http://www.alentejo.portugal2020.pt/>. Last accessed 21.01.2021

Technical Assistance = €1.16.

Regarding the percentage distribution (base 100) of the support granted *versus* the investment made per area, the indicators are as follows:

Human Capital - 6.8% support / 8% investment;

Competitiveness of SMEs - 49.8% support / 45.1% investment;

Social inclusion and employment - 18% support / 18.4% investment;

Sustainability and resource efficiency - 23.6% support / 26.4% investment;

Technical assistance - 1.7% support / 2.1% investment.

## Conclusion

We can conclude that in the framework of Horizon 2020, and according to the data available until 31 March 2020, 3.796 projects were funded in the Alentejo region, representing a total investment of €1,373.370.572.

If we consider that the initial objectives of the European Union foresaw a support of € 1,082.944.371 creating an overall investment in the region of €1,310.731.737, i.e., each euro of funding should generate a regional investment of €1.21, we can conclude that the Alentejo Region, is still lacking about 115 million EU funding (execution rate of 89.3%), is just over €62 million away from reaching the value of the investment forecasted for the region.

In short, for each euro of EU funding with a multiplier expectation of €1.21, the Region has so far achieved an impact of €1.42.

In our opinion, these programs are a very important contribution to value creation.

## 7.1 Future studies

At the end of our ongoing longitudinal study on each of the 7 Portuguese regions [North (Silva & Ribeiro, 2019), Centro Region, Lisbon, Alentejo, Algarve (Jesus-Silva et al., 2020), Azores and Madeira] which is planned for early 2021, we will publish a summary of the 7 papers where we compare the 7 regions.

We will also include tests on the impact of these investments on regional and national GDP.

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## The Issue of Disadvantaged Situation and Pandemic

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### **Abstract**

In the examination of the effects of the COVID-19 pandemic, special attention should be paid to the lagging areas. In the case of the settlements where we should reckon with social and economic backwardness and/or unemployment exceeding the national average, even the smallest change can move the life chances of people living there to a significantly negative direction. We would like to support the theory that the pandemic has resulted in further adverse consequences in disadvantaged settlements besides the existing economic and life quality disadvantages by research performed in Hungary. Besides the infrastructural deficiencies of the families' homes, it is also important to examine the infrastructural elements in terms of the settlements and health care, since health care, including human resources, is a cardinal issue in connection with the efforts to curb the pandemic. Besides these, we should reckon with the changes in the level of unemployment, the possible long-lasting incapacity for work. In the light of the research, it can be defined which professionals' presence and competencies are essential in disadvantaged settlements to prevent the further growth of disadvantages.

**Keywords:** pandemic, disadvantaged situation, multidisciplinary, infrastructure, competence

### **1. Introduction**

Settlements which are beneficiary from a social, economic, or infrastructural aspect and/or suffer from significant unemployment<sup>1</sup> demand special attention for both the workers of the economic, social or health sector and the legislators. Regarding the settlements where these characteristics exist, it should be taken into account that even the smallest change can move the life chances and future life prospects of the people living there to a significantly negative direction. During the examination of the effects of the COVID-19 pandemic, great emphasis should be placed on the lagging areas, the areas where possible social and economic backlogs can be found, and unemployment often exceeding the national average, and unfavourable health prospects occur.

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<sup>1</sup> The Government Decree 105/2015. (IV. 23) is about the classification of the beneficiary settlements and the condition system of the classification.

In terms of the distribution of the beneficiary settlements, one of the most affected regions of Hungary was the North-Hungarian region in 2020<sup>1</sup> which meant 25.69% of all the settlements with similar characteristics in the country, and 26.46% of the population of all the beneficiary settlements lived in this region. Significant differences can be detected even in this territorial unit: Borsod-Abaúj-Zemplén County shows exponentially higher numbers in terms of beneficiary settlements in comparison with the other counties. It should be mentioned that regarding all the counties in Hungary, most of these settlements can be found here (17.97% of the national number, in terms of population it is the second with 18.94% of the national data). More initiations have been started to catch up this area (Rucska & Kiss-Tóth, 2020, Kiss-Tóth & Rucska, 2020, Felszeghi, 2015, Fritz & Perge, 2020).

The study has searched the answer for the following questions: what further difficulties were caused or may be caused by the COVID-19 pandemic in this peripheral county, and what are the possibilities in decreasing further disadvantages?

## 2. Literature Review

Deprivation, the issue of disadvantaged situation has become a determining problem of these days. Not only as a negative social phenomenon we should deal with it, but it is the basis of difficulties occurring in several sectors, so its effects on the economic and health sectors are also determinative (Perge et al., 2020).

Disadvantaged situation means a life situation in which achieving a goal is so important for a certain person or group as for the other members of the society, but they are much more impeded in achieving these goals than the others. In the narrower interpretation of the international practice, those are in disadvantaged situation who can live only on a significantly lower level compared to the living standards and lifestyle of the average population of the certain region because of different causes. Furthermore, those are disadvantaged who may live in a different way than the average population or although their lifestyle is the same, but they can achieve this level only with significantly more efforts (Gidáné, 2006). So, with its complexity in mind, it can be told that it is independent from age and gender, and it can be the typical situation of both individuals and groups or communities.

That person, group, or community (a sub-population) is disadvantaged who/what differs from the average of the population in a biological, mental, somatic or social way. Disadvantaged situation is not just a private issue, it occurs in almost all forms of the communication with the society (Forrai et al., 2008).

## 3. Methodology

### 3.1. Research goal

The study uses the results of research performed in Hungary to support that what kind of further unfavourable consequences have been caused and may be caused by the pandemic besides the existing economic and life quality disadvantages in that disadvantaged region where the number of beneficiary settlements is especially high. In terms of the infrastructure, we examined both the infrastructural deficiencies of the families' houses and the

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<sup>1</sup> The number of the beneficiary settlements of the North-Hungarian region on 1<sup>st</sup> January 2020 was 316 that meant 317 778 persons in terms of the population.

infrastructural elements of the settlements, especially health care, since health care, and mainly the issue of human resources, is a cardinal issue in connection with the efforts to curb the pandemic. Besides these, we have to reckon with the changes in the level of unemployment, and the possible long-lasting incapacity for work.

The authors approach this much researched area of the disadvantaged situation from different aspects from the point of view of the real and possible effects of the pandemic - including but not limited to - with the aim of looking for innovative solutions. Relying on their research, they would like to point out to the areas which should be emphasized more, or which still should be given priority. In the light of the research, it can be defined which professionals' presence and competencies are essential in the disadvantaged settlements to prevent the further growth of disadvantages.

### **3.2. Materials and methods**

Our data were collected from disadvantaged settlements in Hungary. The research in progress performed by the University of Miskolc Creative Region research group included in the Higher Education Institutional Excellence Program (in Hungarian: Felsőoktatási Intézményi Kiválósági Program, hereinafter: FIKP) started in 2018 in Borsod-Abaúj-Zemplén County means a determining part of the examined area. 25 disadvantaged settlements from one of the most backward areas of Hungary, the Abaúj region have been included in the research running for more than two years (Kiss-Tóth & Rucska, 2020). The study also relies on one of the data collections performed by the Faculty of Health, University of Miskolc in connection with the pandemic started in 2019 which focused on the effects of the pandemic on the population.

## **4. Results**

### **4.1. Housing conditions**

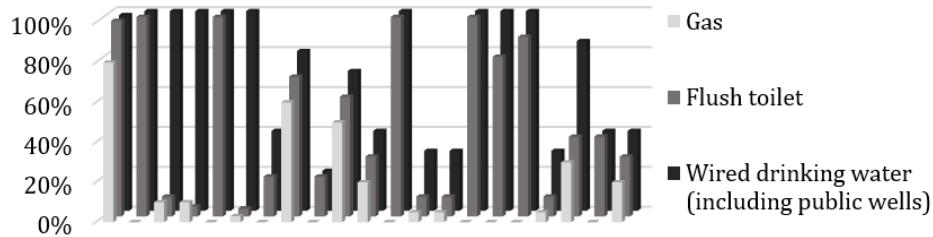
Data of 892 families<sup>1</sup> (from 23 settlements<sup>2</sup>) in the Abaúj region were processed during the examination of the quality of the houses in the FIKP research program. The families' data were used in a summarized form and consequences were made broken down to settlements (Perge et al., 2020). In connection with a pandemic, the existence of infrastructural elements mapped by the FIKP research is especially important in families living in disadvantaged settlements. Working electricity could be found in almost 100% in all the settlements, so almost at all the 892 families. In contrary, tap drinking water (using water from a public well may also be included) showed a variable picture (Figure 1). Tap water supply around or less than 40% was typical in more than one third of the settlements, and there were settlements among them where it was a house quality characteristic determining health in only 20% of the families. Using gas is not widespread in this region: in one settlement, gas was introduced to the houses of about 80% of the people in care, in one settlement it was 60% and there was also one settlement where gas supply was around 50%. On the other settlements the rate of using gas for heating was between 0 and 10% (Perge et al., 2020).

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<sup>1</sup>The common characteristics of the families: they raise children (there is at least one child between the age of 0 and 6 and/or a child between the age of 7 and 18 in mandatory school age but does not visit school) and/or there is a pregnant woman in the family.

<sup>2</sup>In the cases of 2 settlements out of the 23 included in the research, there was not data recording in terms of the data published in this current paper, since they were ageing settlements.

Figure 1: Infrastructure of the families' homes

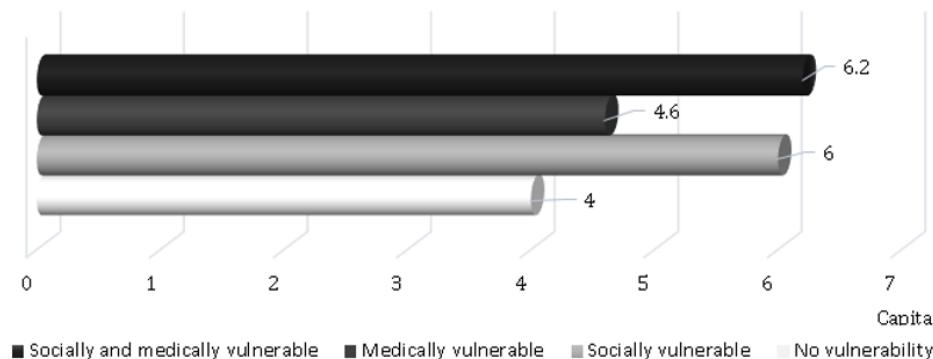


Source: edited by the author

Heating system may determine the quality of the houses. In this region, the number of houses with a traditional heating system was significantly higher than houses heated by a centralized heating system. Housing poverty is also shown by the low number of bathrooms and, in a lot of cases, their total absence, and the rate of flush toilets. Based on the research, flush toilet could be found in those houses which also had a bathroom; according to the results, 100% of the families in care had a flush toilet on 4 settlements, and there were 3 settlements where half of the families in care had neither flush nor non-flushing toilets at all. Data processed in the research have highlighted that this serious house quality problem affects a great part of the region. The existence of a bathroom and a flush toilet showed an occurrence above 90% in 6 settlements in the houses of the families in care, but in 12 settlements the occurrence of them could not reach even 50% (Perge et al., 2020).

Besides the detailed house quality problems and housing poverty, it is important to know the number of people living in the same household. In terms of families where there were any endangering causes (social, environmental and/or health), the number of people living in the same household was much higher than in families without endangering causes (Figure 2). In the non-vulnerable families, four people lived in a household on average, in the socially vulnerable families the number was six, it was 4.6 in families with endangered health, while 6.2 persons lived in the same household on average in families endangered both socially and in health (Perge et al., 2020).

Figure 2: The number of people living in the same household from the aspect of vulnerability



Source: edited by the author

## 4.2. Provision of settlements in terms of health

Those data are relevant in this current study which were collected based on an expert questionnaire and interviews (Perge et al., 2020) made with seven health visitors working in the primary care<sup>1</sup>.

It has been revealed in connection with the health care institutions that there are settlements where the working process tied to the health visitor's consulting room is usually performed in the physician's office. Modernizations can be found in the cases of some consultants that give the opportunity to use a health visitor's consulting room separately from the physician's office in different rooms. Additionally, in terms of the settlements' supply and infrastructure, the research also dealt with the existence of GP care and paediatric care. Data showed that there was a locally available paediatrician only in two settlements, there was a locally available GP supplying a mixed district (children and adults) in 8 settlements, however, people had to travel to another settlement for seeking medical care from 13 settlements. There were some villages in the sample from where people had to travel even 10 or 17 kilometres for this medical care. Regarding the office hours, people in care of 16 settlements could visit their doctor on every weekday, but the residents of 4 settlements could visit their nearest physician's office only on certain weekdays to have medical care. The answers show that medical care is performed by substitution on more settlements, the substitute doctor travels there once a week, and there are certain settlements which are very far from any kind of medical care. There were some settlements which had not had permanent GP care for decades, only a few families had a car, and bus transport was also rare; and all these circumstances influence the health status of people living there in a negative way. In case of 11 settlements, people had to travel to another place to have preventive health visitor's consultation that, based on the analyses of the health visitors' answers, was highly limited due to the public transport deficiencies in the region (Perge et al., 2020).

## 4.3. The occurrence of unemployment

528 people took part in the survey made on the Faculty of Health, University of Miskolc during the second Hungarian wave of the COVID-19 pandemic, 330 of them live in the North-Hungarian region. Based on all the answers, in connection with the labour market status, 13 of the fillers were unemployed, 9 of them lived in the North-Hungarian region. 3 from the 9 lost their jobs more than a year ago, 3 of them in 2020 and 3 of them lost their jobs during the 3 months preceding filling the questionnaire. It is important to mention that recording the questionnaire happened by "snowball" sampling during which those could fill it who had internet access.

In the frames of the FIKP research in Borsod-Abaúj-Zemplén County, the half-year interval of the public survey focusing on the adult population's health status and the factors determining it happened in the period of the pandemic. Data collection was performed by the help of the colleagues of the Faculty of Health on the University of Miskolc by paper-based questionnaire method. Answers were filled by 227 adults living in beneficiary settlements. Data processing revealed that 29.07% of the respondents did not have a job at the time of answering and 19.38% did not have any kind of source of income. 8.81% of the sample was pensioner, 14.1% was looking for a job and 7.9% did casual work. In terms of jobs, 13.22% of the respondents

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<sup>1</sup> Health visitors provide complex, preventive family protection service in Hungary.

were public employees<sup>1</sup>. Based on the subjective judgement of their financial situation, 3.08% of the respondents thought that they were in a very good financial situation, 18.5% judged it as good, and 11.89% thought their financial situation to be bad or very bad, while a great proportion of the sample characterized it as adequate. Unemployed and working persons were in the same proportion among those who qualified their financial situation as bad or very bad, while people who judged their financial situation as very bad were mostly unemployed. The working people who thought their financial situation to be bad or very bad were mostly public workers, however, we could find seamstresses, unskilled workers, teachers or health workers among them as well. In terms of stress, livelihood problems meant the greatest stress factor for 27.75% of the respondents.

## Discussion

From an epidemic point of view, regarding the secondary driving forces of the epidemic process, the most important ones are the changeable elements of the natural, artificial and social environment, such as water supply, sewerage, environmental pollution and livelihood conditions as well (Antmann, 2008). The analyses suggest that poverty and deprivation are typical for the living conditions of the families living in the Abaúj region. One of the areas most to be developed is the tapped water supply; among the examined settlements, we can find some where its existence can be estimated to 20%. Overall, tap water supply is around or under 40% among the included families in 8 settlements out of 21. It has turned out from the analyses that tap water supply in its own does not result in the same rate of the occurrence of flush toilets or bathrooms as water supply. However, in most cases, the existence of bathrooms and flush toilets was more common at the higher proportion of the occurrence, but in contrary, regarding their rate, it was significantly lower. Additionally, in the cases of 3 settlements, where all the families had wired tap water, the rate of bathrooms and flush toilets was 10, 5 and 4%. The number of people living in the same household increases exponentially with vulnerability; in the mirror of these data, it can be concluded that quarantine or separation is not or hardly possible in their cases. Housing poverty can be interpreted as both a family and a social issue, the prevention of the development of further disadvantages originating from house quality problems means priority in a pandemic situation.

Based on the especially high number of unfilled GP districts typical in the Abaúj region (the highest in Hungary) (Kőrösi & Kiss-Tóth, 2020) and the background analyses, it can be stated that there is not any capacity for prevention and educational programs because of the low number of GP districts and the unfilled practices, and besides these, health visitors working in the primary care are overloaded, they deal with a high number of children (Takács, 2020).

According to the data of the research, a significant percent of the people living in the disadvantaged settlements did not have an employment relationship, they showed high unemployment typical for the settlements of the region.

In the questionnaire survey, unemployment was the most common among the respondents who could be reached personally by paper-based questionnaires, on-line answering was not an option in their cases. It can also be observed that there was not a significant difference between the number of unemployed and working people in the subjective judgement of the

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<sup>1</sup> 2011 CVI. law on public employment and amendments to laws related to public employment and other laws: get the working population to work, promote the employment of jobseekers

financial situation, but it showed a difference in its qualification: most of those who judged their financial situation as very bad did not have an employment relationship. Stress also occurs besides the issue of employment relationship and the judgement of the financial situation: more than 27% of the respondents in the disadvantaged settlements marked livelihood problems as the greatest stress factor.

## Conclusion

One of the society's tasks is to help disadvantaged people institutionally on the field of prevention, and to contribute to prevent the development of disadvantaged situation (Forrai et al., 2008). People living in disadvantaged settlements - mainly regarding their health status - need appropriate health, educational and parenting services to break out from deep poverty and their deteriorating health status (Kőrösi & Kiss-Tóth, 2020). A holistic point of view is needed to move the health of people living there to a positive direction, and to achieve that the effects of a possible epidemic influencing the quality of life could be decreased by developing well-being. These settlements require special attention, since besides the serious house quality problems, the existence of houses without comfort, emergency housing and the overload of the health care system, we have to reckon with the existing unemployment as well. Health care and the management of the competencies of people working in primary care are especially important in the case of an epidemic situation. The competency set of health visitors working in the Health Visitors' Service existing for more than a hundred years ago in Hungary has changed with the social demands since its existence, and it has always reflected for the certain public health problems, including the fight against TB (tuberculosis) (Kahlichné, 2015) and cervical cancer screening performed nowadays. Based on the Government Decree of the year of 2020 about the certain issues related to the health care and regular examinations suitable for detecting SARS-CoV-2 coronavirus, every student of the fields of medicine and health sciences can be assigned to perform the examination, without a license to pursue health activities (Government Decree No. 509/2020. (XI. 19)) which also supports the indispensability of human resources. One method to transfer knowledge and get possible extra competencies necessary for health workers to curb an epidemic is holding vocational trainings that can be performed on-line in our digitalized world.

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## Acquisition of Immovable Property According to Special Laws in Albania

Luan Hasneziri

PhD

### Abstract

Immovable property, reflected in various forms, such as hotels, tourism complexes, apartments, land, agricultural land, etc., is one of the most important assets for the economic development of a country. The classic way of acquisition of Immovable property in Albania is according to the provisions of the Civil Code, through the contract of sale, donation, etc., which constitute the classic way of gaining ownership in any democratic state. Albania, as one of the post-communist countries, has experienced a difficult transition in establishing a market economy and a state of liberal democracy. This difficult transition has been reflected quite clearly in the matter of property regulation in general, and immovable property in particular, for which the Albanian state had to adopt special laws. The problem of a fair and complete regulation of Immovable property in Albania, has remained unsolved and this is the main reason that prompted me to present in this scientific work some of the most important legal issues for its regulation. The scientific work consist of two main issues. The first issue will address, in general, the acquisition of ownership of Immovable property under the laws "*On restitution and compensation of the property to former owners*" and "*On legalization, urbanization and integration of illegal constructions*". The definition of these laws will be done by defining them critically and comparing them with international standards related to the property rights. The second issue will analyze the problems arising in judicial practice and the implementation of these special laws. In this issue will be analyzed some Unified Decisions of the Joint Colleges of the Supreme Court and of the Constitutional Court that have to do with the nature and content of these laws. Also, in this issue, will be reflected some decisions, given by the European Court of Human Rights or the Strasbourg Court, against Albania, for the violation of the proprietary rights as one of the fundamental human rights and freedoms. At the end of the scientific work will be given its conclusions, as well as the bibliography on which he is based.<sup>1</sup>

**Keywords:** Immovable property, special law, proprietary rights, legalization and urbanization of illegal constructions, international standards of property rights.

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<sup>1</sup> This scientific work is presented by Dr. Luan Hasneziri, External Lecturer at Albanian University and External Lecturer at the Faculty of Law of the University of Tirana.

## Introduction

1. Property restitution according to the Law “On compensation and regaining of the properties” and “On legalisation, urbanisation and integration of the illegal constructions”

The right to the property case in Albania, despite the Civil Code and other specific law, is regulated by provisions in the Albanian Constitution. The latter explicitly states that the right to private property is guaranteed and no one can be deprived of these rights unless it is against public interest and against a just compensation (see article 41, points 1, 3 and 4 of the Constitution of Albania) <sup>1</sup>.

The provision of basic rules regarding the right to private property from the Albanian Constitution, states the importance these rights have in a country which relies on the market economy and liberal democracy. This constitutional rule of the right to property in Albania is in accordance with international standards, because the Constitutions in every democratic country contain specific dispositions for regulation of private property case, as one of the basic human rights and freedoms but also one of the conditions for market economy developments.

Considering the importance the right to private property poses, the Albanian Constitution has provided also the protection of this right from every illegal action or non action of the state authority. According to the Constitution, the right to property cannot be violated without a right legal process which is one of the basic guarantees of the right for protection of the basic human rights and freedoms in a country (see Point 1 of Article 42 of the Constitution of Albania) <sup>2</sup>.

The right to property is also regulated from the most important articles of the international rights that provides the individual rights and freedom in a democratic society, like the Universal Declaration of Human Rights approved by the General Assembly of the European Union on 10<sup>th</sup> December 1948, in the International Pact for the civil and political rights of the General Assembly of the European Union etc. From the international acts that regulate the right to private property in Albania, an important place takes the European Convention of the Human Rights together with its extra Protocols which are part of the Convention. The Protocol 1 of this Convention states that everyone has the right to have its property respected and no one can be deprived from his property, unless for public interest reasons, in cases provided in

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<sup>1</sup> Article 41, points 1, 3 and 4 of the Constitution of Albania provide:

“1. *The right to private property is guaranteed.*

.3. *The law may provide for expropriations or restrictions on the exercise of property rights only in the public interest.*

4. *Expropriations or those restrictions of the property right that are equal to the expropriation are allowed only against the fair compensation”.*

<sup>2</sup> Point 1 of Article 42 of the Constitution of Albania provides:

“1. *“Freedom, property and rights recognized by the Constitution and by law cannot be violated without a proper legal process.”*

4. The first paragraph and Article 1 of Protocol no. 1 of the European Convention on Human Rights provides:

the law and international rights acts (see the first paragraph and Article 1 of Protocol no. 1 of the European Convention on Human Rights) <sup>1</sup>.

In Albania the right to property case in general and the right to real estate in specific, apart for the Civil Code is regulated from other specific law. One of these laws is "*On the returning and compensation of the property to their owners*". The aim of this law was defined in its Article 1 where states that the state recognises the right to property to former owners of their expropriated properties, confiscated or turned to state property according to the legal acts, sub legal or other court decisions after 29<sup>th</sup> November 1944, or gained in any other unlawful way. According to this law the state would not only recognise ownership but would return the property to the owners if this was possible, and in cases where not possible the former owners would be compensated in the capacity according to this law (see Article 1 of the law "*On restitution and compensation of property to former owners*"). <sup>2</sup>

The range of persons benefiting from this law expanded with the law no.7916 date 12.04.1995, "On some changes to law no.7698 date 15.04.1993" "On returning and compensation of the properties to former owners" which changed Article 1 of the above law, defining that would return the property to former owners which were confiscated, nationalised or taken in any unjust way from the state and according to the law no.37 date 13.01.1945 "*On extraordinary taxation*".

This expansion of the range of the persons who would benefit, even the former owners which properties were taken unjustly based on the law in 1945 "On extraordinary taxation", was not approved by Constitutional Court, which with its decision no.6 in 2000, decided the invalidation as unacceptable for the Constitution and the international speech agreements: "including law no.37, date 13.01.1945 "On extraordinary taxation" which was provided in article 1 of law no. 7916 date 12.04.1995.

In the above decision, Constitutional Court, amid others states: "...Article 1 of Law no.7698 date 15.04.1993 "On returning and compensation of properties to former owners" and also its other dispositions, recognises the right to property the former owners or their heirs for the nationalised properties, confiscated from the state after 29<sup>th</sup> November 1944, or taken unjustly at any cost. By approving this law, the legislator tried to rectify the injustices created by the state at the time, which stripped a relatively high number of owners from their rights to property conform the general rights of the international norms.

Law no.7916 date 12.04.1995, "On some changes to law no.7698 date 15.04.1993" "On returning and compensation of the properties to former owners" which changed Article 1 of the above law, by which expands the range of beneficiary subjects. According to this addition,

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<sup>1</sup>*Every natural or legal person has the right to have his property respected. "No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law."*

<sup>2</sup> Article 1 of the law "*On restitution and compensation of property to former owners*" provided: "*This law recognizes the former owners or their heirs the right of ownership for nationalized property, expropriated or confiscated according to laws, sublaws, and court decisions issued after November 29, 1944, or unjustly taken by the state in any other way, as well as determines the ways and measures for their return and compensation.*

beneficiary subjects are persons as well whose properties were confiscated from the state based on law no.37 date 10.01.1945 *"On extraordinary taxation"*.

Constitutional Court states that this addition of the law in 1995 is not consistent with international Constitution and agreements. The Constitutional Court concludes that the aim of the Law no.37 date 13.01.1945 *"On extraordinary taxation"*, was to put the extraordinary tax on the grand profits realised by its citizens and foreigners in Albania during their trading, industrial and intermediate activities from 7<sup>th</sup> April 1939 until 31<sup>st</sup> December 1944. This category of subjects that was affected by this law it is not considered as equal to the other former owners whose properties were not confiscated or used for any fiscal reasons...." (see Decision no. 6, of 2000 of the Constitutional Court of the Republic of Albania)<sup>1</sup>.

The law "On returning and compensation of the properties to the former owners", provided that the property wasn't recognised and was not returned to the former owners, for the movable property and for agriculture land which was affected by the law "On the land" even for the land and agriculture land which was object of this law, provided restrictions in relation to the land area size which was returned or compensated to the former owners. According to the dispositions of this law, while there were no restrictions to recognising the right to property to the former owners which was for the whole area the land the former owner had before, despite the area size, for the return in kind or compensation of this property, provided that it would return in kind or compensations up to 10,000m<sup>2</sup>, in cases when the property was up to this size. When the property was from 10,000 up to 100,000m<sup>2</sup>, was returned in kind or compensated 10,000m<sup>2</sup> plus 10% of the area that the ownership was recognised, and when the property was over 100,000m<sup>2</sup>, was returned or compensated 10,000m<sup>2</sup> plus 1% of the area that the ownership was recognised (see Article 5 of law no. 7698, dated 15.04.1993 *"On restitution and compensation of property to former owners"*)<sup>2</sup>.

Putting such a restriction from the legislator for the return in nature or compensation of the property to the former owners within a limited area of up to 10,000m<sup>2</sup>, despite the fact that the right to property was recognised for the whole area, was to put a balance between the interests of the former owners and general interests, which required the existence of a free land in order to give to other persons who didn't have land. The restriction set out by this law, which defined the right of return in kind or the compensation of the former owners up to 10,000m<sup>2</sup>, despite the fact that the whole area confiscated was much bigger, is thought to be unjust violation of the lawful interests of the former owners and was not conform the international standards.

The provisions of this law set out detailed rules that defined the cases when the property, after being known to the former owner, was returned to them in kind, obviously within the area specified in the law or compensated in one of the ways provided by law. The restitution of the property or its compensation was based on the principle that when the property was vacant,

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<sup>1</sup> See also: Decision no. 6, of 2000 of the Constitutional Court of the Republic of Albania.

<sup>2</sup> Article 5 of law no. 7698, dated 15.04.1993 *"On restitution and compensation of property to former owners"* provided: *"In all cases not otherwise provided in this law, the restitution and compensation measures will be complete up to 10 000 m<sup>2</sup>. When the property is from 10 000 to 100 000 m<sup>2</sup>, the amount of return or compensation will be plus 10 percent, while for properties over 100 000 m<sup>2</sup> plus 1 percent".*

it was returned to its former owner, while when the property was occupied, it was not returned to the former owner, but he was compensated in one of the ways provided by law.

Making a systematic and logical interpretation of the provisions of this law, we find that property, which included buildings, lands, agricultural and non-agricultural land, was considered occupied in cases when at the time of entry into force of this law served to the realization of public interests. In all other cases the property would be considered vacant and it would be returned to the former owner in kind.

For the return of free property in kind, two of the cases that this law provided that the property was free, which were provided by articles 12 and 17 of law no. 7698, dated 15.4.1993 have no legal value and force, because the Constitutional Court with its decision no. 4, of 1994 has repealed as incompatible with the main constitutional provisions Articles 12 and 17 of the above law which provided for these cases. Thus, the Constitutional Court, repealing Articles 12 and 17 of Law no. 7698, dated 15.4.1993 "On the return and compensation of properties to former owners", in its decision no. 4 of 1994, among others, it aims: "... Through law no. 7698, dated 15.04.1993 "On the return and compensation of property to former owners", the new democratic state, although not responsible for the injustices of the past, assumed the moral and legal obligation to put in place, as best as possible, some of the injustices of the previous regime pertaining to the period after 29 November 1944.

With regard to Articles 12 and 17 of this law, the review of the constitutionality of which is the object of this trial, the Constitutional Court concludes that their dispositions are contrary to certain principles and constitutional norms adopted by the constitutional laws in force and universally accepted in international legal acts, which ensure the protection of private property from unjust and arbitrary actions of the state or other entities. According to Article 27 of the constitutional law no. 7692, dated 31.03.1993, "On Fundamental Human Rights and Freedoms": "No one can be denied the right to have private property alone or together with others, and the right to inherit. Acquisition, enjoyment and alienation of property, as well as the right of inheritance are regulated by law".

No one can be expropriated, except for a public interest and against full compensation."

...Contracts in which the state has participated as a selling party of these premises, even if justified reasons are made that make them invalid, can not be unilaterally terminated by the state through its legislative or executive bodies, because it violates the well-known legal principle, according to which no one, even the state, cannot become a judge of his own case. (*Nemo judex in causa sua*)..." (see Decision of the Constitutional Court of the Republic of Albania no. 4 of 1994).<sup>1</sup>

Another special law that provides for the acquisition of ownership of real estate is the law "*On legalization, urbanization and integration of illegal constructions*". Our country, for about last 50 years of the last century, namely from 1945 until 1990, from the point of view of the political and economic system, was characterized by the rule of the totalitarian socialist state, where human rights, including the right to move and choose one's home freely within the country, were completely denied. This resulted in the beginning of pluralism, during the last decade of the twentieth century (1990-2000), but also afterwards, a large part of the

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<sup>1</sup> See also: Decision of the Constitutional Court of the Republic of Albania no. 4 of 1994.

population, mainly from the northern, north-eastern and south-east of the country who lived in very difficult economic conditions due to the terrain where they were and unemployment, to move to the western lowlands of the country and mainly on the outskirts of large cities, such as Tirana, Durres, Vlora, etc. The movement of this part of the population, we can say about 1/4 of the entire population of the country, towards the big cities, was a consequence not only of the difficult terrain conditions, lack of infrastructure, as well as economic difficulties and mass unemployment, which had occupied these areas and parts of the population in this period, but also of the "wind of freedom", which was finally felt by Albanians at the turn of the twentieth century and early twenty-first century.

This caused a social problem which had to do with resolving the issue of land ownership occupied by the newcomers, so it had to be determined who would become the owner of these already occupied lands, the former owners or persons who had come and occupied these lands, and resolving the problem of urbanization and integration of these occupied lands, where new dwellings were built by the newcomers, with other urbanized areas. On the other hand, the movement of a large number of population in the suburban areas of large cities, took place during times when the state and its central and local bodies, failed to take any measures to prevent this chaotic movement and without any urban plan, turning this massive population movement into a social problem that affected the interests of two major social groups:

- a) the interests of the former owners whose lands were occupied by the newcomers and
- b) the interests of the migrants who, it is true that with their relocation had occupied the lands of other persons, but, since they were in very large numbers and moreover the state had not intervened to prevent it or at least to regulate to some extent these movements, these interests had already become a social issue which had to be resolved by the state.

Precisely to regulate these two opposing interests, specifically the interests of the former owners whose lands were occupied and the settlers' interests that had occupied these lands, as well as to urbanize and integrate these occupied lands with other urbanized areas of the country, the Albanian Parliament, approved the law "*On legalization, urbanization and integration of illegal constructions*". This law is a special way of regaining ownership, due to the fact that one of its main purposes is the transfer of ownership of the occupied land / plot, to persons who came or occupied it, building illegally on them, in accordance with the rules set out in this law. This is explicitly stated in the law, which has provided a special Chapter, which provides legal rules for the transfer of ownership over construction plots in favour of newcomers who have built illegally.

The above law that in its article 1 has defined its purpose or object, which according to this provision is: (see Chapter IV of the law "*On legalization, urbanization and integration of illegal constructions*")<sup>1</sup>

- a) legalization of informal constructions as well as informal additions made to the legally built facilities;

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<sup>1</sup> These legal rules are specifically provided in Chapter IV of this law, in some articles, from article 15, to article 35, around 20 articles, constituting this Chapter also the most voluminous and most important Chapter of the law, which in total there are 48 articles and six Chapters.

- b) the transfer of the right of ownership of the land where the informal construction was done in favour of the builder of the facility, according to the rules provided in this law;
- c) urbanization of informal areas /blocks and informal constructions, as well as their integration in the territorial and infrastructural development of the country;
- ç) defining the procedures for the realization of the legalization of informal constructions and the informal additions made to the legally built objects, as well as the establishment and functioning of the structures responsible for their realization;
- e) despite the fact that in article 1 of this law it is not clearly expressed by its other provisions, as well as by interpreting the law as a whole, it results that one of the other purposes of this law is also the passing of the right of ownership of the object itself or the construction / addition without permission made by the builder, according to the rules defined in this law (see Article 1, amended of law no. 9482, dated 3.4.2006 "*On the legalization, urbanization and integration of illegal constructions*").<sup>1</sup>

## **2. Problems arising in case law regarding the acquisition of ownership of real estate properties by special laws**

One of the main problems in practice had to do with the legal regulations made by the law in 1993 "On restitution and compensation of property to former owners" and the law "On privatization of state-owned housing". The purpose of this last law was to transfer ownership of state-built apartments, mainly apartments to tenants who were mainly residents in the cities that until then lived in rented state-built mansions or even with voluntary contributions.

With the entry into force and implementation of these two laws, namely "On the return and compensation of property to former owners" and the law "On privatization of state-owned housing", for a certain category of houses was created a double situation, because based on these The ownership of these apartments was recognized by the former owners, but on the other hand, it was determined that the tenant who had lived in these apartments would have the right to enjoy and occupy these apartments, for an unlimited period of time until the state or the former owner of the apartment to find another similar living space for the tenant. This meant that for this category of dwellings the former owners became formal owners or had only their own empty ownership, while the right of enjoyment and use, obviously only for residential purposes, belonged to the tenants.

The above two laws tried to establish a balance between the legitimate interests of the former owners of these apartments, as well as the interests of the tenants who had lived in these

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<sup>1</sup> Article 1, amended of law no. 9482, dated 3.4.2006 "*On the legalization, urbanization and integration of illegal constructions*", stipulates: "This law has as object:

- a) Legalization of informal constructions and buildings with permits with informal additions to the building.
- b) The transfer of ownership of the construction plot, where the illegal construction was erected, according to the definitions made in articles 19, 20, 21, and 22 of this law.
- c) Urbanization of areas, buildings and informal constructions, as well as their integration in the territorial and infrastructural development of the country, improving the living conditions.
- ç) Procedures for the realization of the legalization of informal constructions / objects with permits with informal additions in the object".

apartments for years and as can be presumed from the content of law "*On the return and compensation of property to former owners*", priority was given to the interests of tenants and not to former owners, who were left with no ownership of these apartments, a situation which has finally changed after about 20 years where the former owners gained the right to take their apartments that were rented by other persons according to the law "On privatization of state-owned housing". Article 14 of the above law stipulated that the relations between tenants and former owners who become owners under this law, are regulated by law "*On the privatization of state-owned housing*", thus giving priority to the law "*On the privatization of state-owned housing*" and the protection of the interests of tenants.

This position held by the legislator at the time, where in our opinion the legitimate interests of the former owners were violated, in favour of the tenants of the apartments, we think is not fair and grounded and shows once again that for the Albanian state and society, the interests of legitimate owners, who have been subject to great injustice during the communist regime in relation to their property, are not seen as priority. Realistically referring to the social groups representing the conflicts of interest in this case, which were the former owners on one hand and the tenants on the other, the social group which was most powerful in 1993, when this law was adopted, turns out to be the group of tenants and in this case the legislator has chosen to protect the most powerful social group (the interests of the tenants) and not the social group that had the right (the interests of the former owners). Recognition of the right of tenants was also confirmed by the decision of the Constitutional Court of Albania with its decision no. 26, dated 2.11.2005, showing this Court once again that the lawful interests of the former owners of the apartments who were rightfully claiming their property, have a lower value than the interests of the tenants who were staying or residing in these apartments of the former owners. In the above decision, regarding the abolition as incompatible with the Constitution, point 1 of article 9 of law no. 9235, dated 29.7.2004 "On the return and compensation of property", which provided for the return of these apartments to the former owners, the Constitutional Court, among other things, reasons:

"... From the analysis of the above provisions, faced with the constitutional principles and norms, the Constitutional Court concludes that point 1 of article 9 of law no. 9235, dated 29.7.2004, should be repealed as unconstitutional.

The new law no. 9235, dated 29.7.2004, in point 1 of article 9, makes essential changes to the rights of tenants. Thus, while with the previous provisions the state undertook to sort out housing by making the applicants, owners on the same criteria that benefited the rest of the people, the disputed provision does not explicitly provide for these obligations of the state. The disposition provides for insuring their housing through low-rent housing, low-interest loans or state-compensated rental housing.

...It shows from the examination of the case that in the given case, the change of the law favourable to a certain group of the population is not justified by any inherent public interest. It is true that the amended provision favours homeowners, but on the other hand it discriminates against another group (albeit small in number), violating its basic right to life, that of having a shelter. To deny the right to the tenants to become owners, to terminate the lease contract without guaranteeing another shelter, are actions that can not be justified in the

public interest ...." (see Decision no. 26, dated 2.11.2005 of the Constitutional Court of the Republic of Albania) <sup>1</sup>

During the practical implementation of the law "On restitution and compensation of property", various problems arose, which forced the Supreme Court, but also the Constitutional Court, to issue several decisions, the purpose of which was to determine correctly and accurately the content of legal regulations provided by this law. In the following case, we will present some Unifying Decisions of the High Court, which have unified the case law in relation to certain problems that have arisen from the practical implementation of this law.

Thus specifically, during the practical implementation of the law "On restitution and compensation of property to former owners", there were clashes and contradictions with the decree of the President of the Republic "On the property of trade unions", where the Supreme Court with its Unifying Decision no. 85, dated 29.06.2001, unified the case law by determining that, in any case where there are various contradictions and legal regulations between the law "On restitution and compensation of property to former owners", and the decree of the President of the Republic, no. 204, dated 5.6.1992, priority will be given to the provisions of the law "On restitution and compensation of property to former owners".

The Supreme Court in the above decision, among others, concluded that: "... For the purpose of unifying the case law on this issue, the Joint Panels of the High Court, through this decision conclude that:

1. *Whenever the interests of the former owners (their heirs), who benefit from the return (restitution) of the unaltered buildings or vacant lands, according to the provisions of Law no. 7698, dated 15.4.1993, clash with the interests of the unions, who have acquired these buildings or lands, according to the decree no.204, dated 5.6.1992, the consequences of which are regulated by law no.8340 / 1 dated 06.05.1998, the protection of the interests of the former owners (heirs of tire).*
2. *Law no. 8340/1, dated 6.5.1998 "On the regulation of the consequences that have resulted from the implementation of the decree no. 204, dated 5.6.1992" On the property of trade unions "", is applicable so far as it does not fall into contrary to the provisions of Law no. 7698, dated 15.4.1993 "On the return and compensation of property to former owner" (see Unifying Decision of the High Court of Republic of Albania no. 85, dated 29.06.2001).<sup>2</sup>*

Despite the clear position held by the Supreme Court with its Unifying Decision no. 85, dated 29.6.2001, in which it sanctioned that when there was a clash between law no. 7698, dated 15.4.1993 "On the return and compensation of property to former owners" with the provisions of decree no. 204, dated 5.6.1992 "On the property of trade unions", priority will be given to the interests of the former owners and the provisions of this decree would apply only in cases and so far as they did not contradict the provisions of the law in question, the case law was again doubled in the implementation of this unifying decision. Such a thing forced the High Court to issue another Unifying Decision, namely decision no. 5, dated 23.03.2004 by which it sanctioned once again, this time in more detail than the provisions of decree no. 204, dated 5.6.1992 "On the property of trade unions", will apply only in cases where they do not conflict

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<sup>1</sup> See also: Decision no. 26, dated 2.11.2005 of the Constitutional Court of the Republic of Albania.

<sup>2</sup> See also: Unifying Decision of the High Court of Republic of Albania no. 85, dated 29.06.2001.

with the provisions of the law "On restitution and compensation of property to former owners" and in case of collision or conflict between these two laws ", priority will be given in any case to the law "*On restitution and compensation of property to former owners* ".

The Joint Panels of the High Court in Unifying Decision no. 5, dated 23.03.2004, among others, states that: "... Decree no. 204 legitimized the transfer of facilities owned by trade unions and the actions performed before its approval have no legal force, as there was no legal act for the transfer of ownership from the state to social organizations. With the issue of the decree (which, as it was treated, has no legal force) we are faced with the fact that the situation was unclear and the interests of the former owners and social organizations collide, where the interest of the former owners takes precedence, which continues today based on adopted legal acts. Through them, when there is a possibility, the property is returned to the former owner physically, when it is not possible of a physical return, the former owner is compensated. It should be borne in mind that what is built on the land of the former owner when it goes on sale by the state, it takes precedence to become the former owner's, but in order to transfer ownership, they must pay the value of buildings built by the state according to the provisions of the relevant legal provisions...." (see Unifying Decision of the High Court of Republic of Albania no. 5, dated 23.03.2004)<sup>1</sup>.

Another issue raised in the case law during these years, has been the problem of the clash of the law "On companies", with the law "*On restitution and compensation of the property to former owners*", where in practice the question has been raised as to which of these two laws will take precedence over properties returned to former owners. Even in relation to this issue, the High Court has ruled with a Unifying Decision, specifically with its Decision no. 25, dated 28.03.2003, stipulating that in case of conflict between these two laws, i.e the law "On companies", of 1993, and the law "*On restitution and compensation of the property to former owners*", the law that will have priority is "*On the return and compensation of the property to former owners*." In reaching this unifying conclusion in the above Decision, the High Court among other things reasoned that: "... The Joint Panels of the High Court for the purpose of unifying the case law conclude that *the plaintiff as a subject of law which became the owner after the privatization, is not legitimized to file a lawsuit for the abolition of the decision of the Commission for Restitution and Compensation of Property to the former Owners, when the part of the land that was recognized to the former owners (heirs) is included in the company's shareholders capital...*" (see Unifying Decision of the High Court of Republic of Albania no. 25, dated 28.03.2003).<sup>2</sup>

The Supreme Court, in another Unifying Decision, specifically decision no. 46, dated 06.06.2002, has resolved the issue whether there is a collision or interference (intervention) between the law "*On restitution and compensation of the property to former owners*", and law no. 355, dated 21.11.1946 "*On the repayment of loans taken before 29.11.1944*", through which it has concluded that, between these laws there is no conflict and the provisions of the law "On restitution and compensation of the property to former owners" has not abolished law no. 355, dated 21.11.1946. In relation to this issue, the Supreme Court in the above Unifying Decision among other things reasons:

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<sup>1</sup> See also: Unifying Decision of the High Court of Republic of Albania no. 5, dated 23.03.2004.

<sup>2</sup> See also: Unifying Decision of the High Court of Republic of Albania no. 25, dated 28.03.2003.

...Thus Law no. 7698, dated 15.4.1993 "On the return and compensation of the property to former owners" in its entirety regulates the legal relationship between the state and former owners by undertaking to return to the latter the property received in one of the forms provided in article 1 of this law, such as nationalization, confiscation, sequestration, etc., or obtained unjustly by the state in any other way.

Whereas law no. 355, dated 21.11.1946 "On the repayment of loans taken before 29.11.1944", regulates the legal relations between individuals and mainly between the lender and the borrower. According to Article 9 of this law "*When a property is mortgaged for a loan after 1.4.1929 and this property is today in the hands of the lender, then the mortgaged property is returned to the borrower.*"

The two above-mentioned laws have regulated at different times different problems, which are not related to each other. With the law on restitution and compensation of the property to former owners, the state undertakes to return to the former owners (their heirs), to an acceptable, reasonable and objectively possible extent, the properties obtained illegally or unjustly. Therefore, relations are regulated between the state entity, on one hand, and the former owner entity, on the other hand. Whereas law no. 355, dated 21.11.1946 has regulated in a different way from the legal regime of the time (Civil Code of 1929) the relations between private entities, created by high interest loans, covered by mortgages or sale with repurchase agreement. In these legal-civil relations the state has not been a party and therefore has not undertaken either at that time or later, any obligation of its own to private entities..." (see Unifying Decision of the High Court of Republic of Albania no. 46, dated 06.06.2002)<sup>1</sup>.

In another Unifying Decision of the High Court, specifically Decision no. 05, dated 30.03.2005, this Court, has expressed regarding the properties that the communist state of the time had confiscated or nationalized the Catholic Church, properties which at the time of nationalization were listed in the name of private natural or legal persons. The Supreme Court in the above Unifying Decision, has unified the case law stipulating that all properties which at the time of confiscation or nationalization appeared on behalf of private or legal persons, are returned to the Catholic Church, which was actually the owner of these properties, but due to the lack of its legal personality according to the official internal laws of the time, which regulated this institution, had registered them in the name of various private or legal persons (see Unifying Decision of the High Court of Republic of Albania no. 05, dated 30.03.2005)<sup>2</sup>.

Another important problem arising from the case law in Albania had to do with the fact whether the law "*On legalization, urbanization and integration of illegal constructions*", was in accordance with the Constitution of Albania and international acts guaranteeing the right of private property. The Constitutional Court of Albania also ruled on this issue in its decision no. 35, dated 10.10.2007, which decided that the above law does not contradict the Constitution of the Republic of Albania, arguing in essence that the expropriation of these owners was done by law, for a public interest and against a fair reward. In the above decision, the Constitutional Court, among other things, reasons:

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<sup>1</sup> See also: Unifying Decision of the High Court of Republic of Albania no. 46, dated 06.06.2002.

<sup>2</sup> See also: Unifying Decision of the High Court of Republic of Albania no. 05, dated 30.03.2005.

"... 3. The Constitutional Court considers that in accordance with Article 17 of the Constitution, the restriction of the property right of the rightful owners has been realized by law, as one of the necessary criteria in case of restriction of human rights.

... Through its jurisprudence, the Constitutional Court has stated that: "Analysis and interpretation by the Constitutional Court of some of the constitutional concepts related to" public interest" and "fair remuneration" and respect for the principles of justice, of proportionality, or of the welfare state, constitute at the same time the constitutional limits of the evaluation space, on which the legislator must be oriented, for the respect of the property right".

... From the above, the Constitutional Court concludes that since the law on legalizations has as its object the legalization of illegal constructions and especially the urbanization of areas, informal blocks and informal constructions as well as their integration in the territorial infrastructural development of the country, by improving the living conditions, as well as the "public interest" that may justify the expropriation of lawful owners, and the transfer of their property to the owners of unauthorized builders. The Constitutional Court considers that the determination made by the law on legalizations, according to which, the ownership of the expropriated land does not remain with the state, but is transferred to the owner of the building being legalized which does not constitute an obstacle for this designation to be considered necessary for the "public interest"...." (see Decision no. 35, dated 10.10.2007 of the Constitutional Court of the Republic of Albania)<sup>1</sup>

The issue of non-compliance with the right to private property in Albania has been ascertained by several decisions of the Strasbourg Court, which has taken decisions against Albania, punishing / sentenced to pay certain monetary values to the rightful owners for non-observance of this right. Thus, in the decision of 22 August 2006, in the case Beshiri v. Albania, the Strasbourg Court found a violation of Article 1 of Protocol no. 1 of the European Convention on Human Rights, which guarantees the right to private property. In this case, this Court, *inter alia*, states that:

*"...102. Disobeying the decision of the Tirana Court of Appeals, the local authorities left the applicants in a state of uncertainty as to their chances regaining their property rights. Moreover, for a certain period of time, the authorities deprived the complainant of the right to be paid the value of the compensation and of the joy of owning their money. Regarding to the justification submitted by the Albanian side for this intervention, the Court recalls that the lack of funds can not justify negligence on the part of the state to execute the final decision on debt repayment.*

*103. Consequently there has been a violation of the First Additional Protocol to the Convention on the issue of compensation* (see The decision of the Strasbourg Court of 22 August 2006, in the case of Beshiri v. Albania).<sup>2</sup>

In another case, specifically in the case of Sharxhi and others against Albania, with the decision of 11 January 2018, the Strasbourg Court found a violation by the Albanian state of the property right provided by Protocol no. 1 of the Convention. In this decision this Court, among other things, justifies that:

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<sup>1</sup> See also: Decision no. 35, dated 10.10.2007 of the Constitutional Court of the Republic of Albania.

<sup>2</sup> See also: The decision of the Strasbourg Court of 22 August 2006, in the case of Beshiri v. Albania.

*"...173. The Court further argues that the acquisition of the Ion Residence caused serious consequences for the claimants, as their property had been illegally expropriated, and this did not respect their right to peacefully enjoy their assets (see, among many decisions others, Iatridis, cited above, Papamichalopoulos and Others v. Greece, 24 June 1993, Series A No. 260 B, Column v. Cyprus, No. 28025/03, §§ 70–78, 27 September 2007, Loizidou, cited above, §§ 63–64, and Demades, cited above, §46).*

*174. For the above, the Court finds that the concrete intervention was manifestly in violation of Albanian law and was therefore unlawful (see paragraph 133 above on the respective principles). For this reason, did not respect the right of claimants to quietly enjoy their property. This conclusion makes it unnecessary to determine whether a fair balance was struck between the requirements of the general interest of the community and the requirements for the protection of the fundamental rights of the individual.*

*175. for this reason, Article 1 of Protocol no. 1 of the Convention, concerning the expropriation and demolition of applicants' assets... (see The decision of the Strasbourg Court dated 11 January 2018, in the case Sharxhi, etc. against Albania)<sup>1</sup>.*

## **Conclusions and Recommendations**

From what was discussed above in this scientific work can draw some conclusions, one of the most important is the fact that the issue of property rights in Albania even after a period of 30 years since the fall of the communist system has not been resolved fairly and conclusively. This poses a serious problem because it hinders the economic and social development of the country, the absorption of foreign investment in the country, the development of domestic business and the free movement of goods, services and capital. In its post-communist period, Albania has adopted several special laws for the regulation of property rights, such as the laws "On restitution and compensation of property" and the law "On legalization and urbanization of illegal construction". With the adoption of these laws, the Albanian state has tried to establish a fair balance between the interests of different groups of the population, which has been difficult due to poverty in the country and the lack of legal culture among citizens in Albania.

The implementation of special laws related to the acquisition of immovable property in Albania has brought a number of problems. This is clear from the large number of Unifying Decisions of the Joint Colleges of the Supreme Court and the Constitutional Court of Albania, which are decisions that have the force of law in Albania and where these institutions have tried to interpret these special laws. A typical example is the conflict of interests protected by two different laws, the law "On the restitution of property to former owners" and the law "On privatization of apartments", where for apartments former private property rented by tenants, former owners were denied without the right to return these apartments for a period of over 20 years, until finally this issue was resolved fairly, returning them to the former owners.

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<sup>1</sup> See also: The decision of the Strasbourg Court dated 11 January 2018, in the case Sharxhi, etc. against Albania.

It is necessary for the Albanian state to undertake deep legal reforms for the fair settlement of the issue of private property, applying the principle that the property should be returned to its former owner, regardless of the different costs and opinions that the lawyers may have on this matter. This is the only way to ensure the economic development of the country, to ensure the well-being of Albanian citizens, as well as to change a state where fundamental human rights and freedoms are respected.

Over the last 25 years, Albania has been punished dozens of times by the Strasbourg Court for its non-compliance with the right to private property. This scientific work presents two typical cases related to this issue, where the last case in addition to the large value of monetary damage, who be paid by the Albanian taxpayers in millions of euros, there was also a political background, which shows that for such a fundamental issue as property rights, the political classes in Albania have not yet been consolidated and are unfortunately unable to understand its importance.

In addition to the conclusions reached in this scientific work, from the problems discussed we can draw some Recommendations. The first recommendation concerns the reference of the works of other authors who have addressed the above topic in their scientific works. Regarding the reference in other scientific works, which have addressed the issue of acquisition of immovable property in Albania, it is worth noting that these works in Albania are limited.

However, as for any important legal and controversial issue, we can say that legal scientific works in Albania are not absent. One of these scientific works is: "*Acquisition of ownership of real estate*", by Klodian Rado, published in 2008, former judge and for several years Head of the Property Restitution and Compensation Agency in Albania, one of the main agencies dealing with the issue of real estate acquisition in Albania. The scientific work of this author is in the form of a Monograph and is recommended to readers who want to get more in-depth knowledge in this field. Another Albanian scientific work that can be recommended for authors who have an interest in this field, is the one entitled: "*Civil Law (Ownership)*", published in 2010, by the co-authors Prof. Dr. Ardian Nuni and Dr. Luan Hasneziri. This scientific work is a university textbook used by a significant part of the Faculties of Law in Albania, which deals with the main institutes of property law, including the acquisition of ownership over immovable property according to special laws.

From foreign authors a scientific work that can be recommended to researchers, who want to expand their knowledge on the topic discussed above, is "*The Private Right*", by the Italian author Francesco Calgano, published in 2006, translated in Albanian from the Publishing House "*Luarasi*'. This scientific text is one of the most important works of foreign authors that is in the hands of Albanian lawyers, which deals with the ways of gaining ownership and which is also important for the fact that a large part of civil laws in Albania have been taken from the Italian legal system.

Regarding the recommendations related to this issues, one of the recommendations according to international standards of property rights in Albania, is that the Albanian Parliament should repeal the special laws related to the acquisition of ownership of immovable property, such as the law "*On legalization, urbanization and integration of informal areas*" and the law "*On the treatment of property*", of 2017, which has replaced the law of 2004 "*On restitution and compensation of property to former owners*".

The repeal of these laws would be the first step in properly regulating the property issue in Albania, because these laws do not return property to former owners expropriated by the communist regime, but treat former owners as a vulnerable group who need the mercy of the state; while in a democratic state they should be treated with due respect, returning all expropriated properties and when this is not possible, compensating them in nature or in cash, at market value.

Another recommendation would be for the legislature to adopt a new law on the issue of property, where its purpose would be to return the immovable property to its original condition to the former owners and the issue of illegal constructions made on their properties to be resolved according to the rules of the Civil Code of the Republic of Albania, specifically according to its Article 175, which provides that when a person builds on another's land in treachery, the landowner has the right to either request the removal of the construction done at the builder's expense or to maintain the building by paying the builder the value of the material and the value of the work.

The new law should provide that if it is not possible for the property to be returned to the former owner in its original condition, as it is occupied by public construction, the former owner must be fully compensated or in some way with another property or in money, at the market value of the property today, property has been expropriated by the communist state.

Despite the fact that the acquisition of ownership over agricultural land, according to law no.7501, of 1991 "*On Land*", has not been my subject of discussion in this scientific work, as it belongs to another branch of law such as "*Agrarian Law*", for the full regulation of property issues in Albania, it is necessary to completely repeal this law, which is the main problem of the property issue in Albania. This law divides agricultural land according to the Leninist principle "the land belongs to the one who works it", and paradoxically in the beginning of democracy in Albania this constitutes another agrarian reform made by the "democratic" state in 1991, after the reform made by the communist state in 1945. Instead of this law, a new law "*On agricultural land*" should be approved, where to provide that the property to be returned to the former owners and the issue of occupation of this land with constructions made without permission or in treachery, to be regulated according to article 175 of the Civil Code, cited above. Only in relation to the agricultural lands that remain or are owned by the state, the state can apply the Leninist principle for their division, although, I personally think that this does not contribute to the development of the Market Economy and the Albanian society as a whole.

The last recommendation I would make for the full settlement of the property issue would be for the legislature to issue a special law that would subsidize and assist agricultural landowners, giving them the opportunity to create large landowners of agricultural lands or large and medium-sized farms. Only in this way would it be possible to absorb foreign investments in Albania in the field of agriculture which, together with the other measures mentioned above, would bring the agriculture of Albania out of the primitive state of fragmentation of thousands and thousands of plots, with area of 1000-2000 m<sup>2</sup> and would create the possibility of a modern and developed agriculture, able to compete with the countries of the region and beyond.

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## Characteristics of Strategic Subcontracting Relations of Industrial SMEs

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### Abstract

The paper explores and analyses the activities of industrial small and medium-sized enterprises (SMEs), working as subcontractors, that have built sustainable relationships with at least one of their clients. It focuses on the importance of such dealings for SMEs that enables them to overcome their inherent weaknesses, to enhance competitiveness and to realize promising development. For that reason, subcontractors usually seek to build strategic partnerships with contractors. The paper reveals the main characteristics of the buyer-supplier relations that could be defined as strategic to the subcontracting SMEs, such as: to be sustainable over time, to provide access to key resources and innovations, to lead to acquisition of new competitive advantages and growth, etc. In addition, the paper presents some key traits of the relations that mark the existence of a mutual strategic partnership between subcontractors and their clients. The data and methods used in the paper include a study of literature sources, an investigation of available research findings, results of the author's individual research and expert observations, as well as data from a collective research project.<sup>1</sup>

**Keywords:** small and medium-sized enterprises, entrepreneurship, strategic subcontracting, competitive advantages, contractors, subcontractors

### Introduction

The dynamically changing consumer demands and the highly intensified competition in most markets today lead to changes in the relations between industrial enterprises, to increasing specialisation and division of labour at inter-company, national and international level, reflecting in the growing use of subcontracting as a method of production organisation.

There are numerous studies and publications discussing on: the reasons that urge large companies to use subcontractors; the activities that they could assign to external manufacturers and those that they should keep inside; the benefits of the reasonable and well-organised use of suppliers; the procedures for selection of subcontractors and the ways to evaluate their performance; the decision to turn them into strategic partners, etc. It can be summarised that the available literature and research focus mainly on the reasons, benefits and mechanisms by which large companies use subcontractors. The decisions, strategies and

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activities of subcontractors (often micro, small or medium in size) are rarely subject of research and publication. Even less – when subcontracting can be considered as a strategic lever for business development.

For these reasons, the paper focuses on the buyer-supplier relations through investigation of the subcontractors' point of view. It presents the most important indicators for determining such relations as strategic for the subcontractor companies but also – some key characteristics that mark the existence of a mutual strategic partnership. The data and methods used in the paper include a study of literature sources, an investigation of available research findings, results of the author's individual research and expert observations, as well as data from a collective research project.

## Theoretical basis

### ***SMEs' strategic partnerships***

SMEs are one of the engines of the economic development of most countries. Moreover, they solve tasks that are important to the society, such as creating employment or serving small market niches that embrace specific consumer needs.

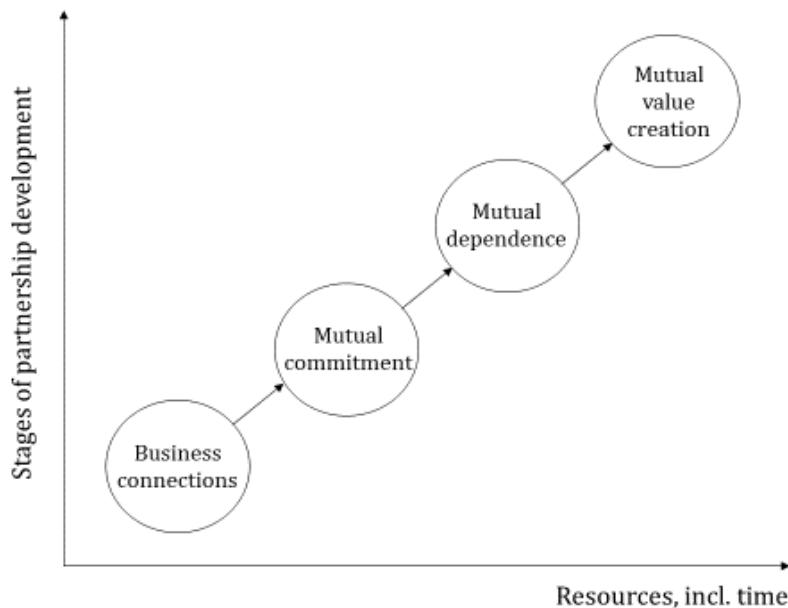
The group of SMEs is rather heterogeneous and it is characterised by different business models. There is not a big discussion in the specialised literature on the statement that the main alternative business models, implemented by SMEs, are the ones of small manufacturers and subcontractors (Cagliano&Spina, 2002). The first model is applied by companies manufacturing small production runs of products designed for a particular group of clients. SMEs that cannot or do not want to be independent small producers choose the second business model, finding their market in the face of large companies of which they become subcontractors.

When applied wisely, both business models can lead to market success, competitive growth and promising development. Nevertheless, whatever SMEs have chosen, the practice shows that they can hardly progress so alone. That is why entrepreneurs and SMEs' managers usually strive for entering and developing partnerships with other, often larger, companies. Through strategic collaboration SMEs are able to: overcome their inherent weaknesses (isolation, resource scarcity), gain greater results from their core strengths, share risks with partners, quickly respond to changes in the environment and undertake considerable strategic initiatives.

Along with the benefits of their involvement in strategic partnerships, SMEs' entrepreneurs and managers face a number of difficulties and problems related to finding a suitable partner, division of rights in relation to joint inventions and other objects of intellectual property, determination of the contribution of each partner to the joint activities, as well as distribution of their benefits. Major obstacles to maintaining sustainable relationships are the large difference in the size of the enterprises, the risk of losing independence of one of the partners and others. However, when the partnership is strategically oriented, the size should not matter: the dependence is mutual and it is not used by one of the partners to the detriment of the other. Therefore, when an entrepreneur purposefully looks for a suitable partner with whom to build strategic cooperation, the best first step is to review his/her already established personal and business relationships. And then, step by step, the strategic partnership is to be developed. Its components and stages may be different depending on the

characteristics of the partners and the goals set. One possible model of building a strategic partnership is presented in Figure 1.

**Figure 1. Components and stages of building a strategic partnership**



*Source:* Adapted from: Holm, D. B., K. Eriksson, J. Johanson (1999). Creating value through mutual commitment to business network relationships. *Strategic Management Journal*, No 20, 1999, p. 470.

#### ***Subcontracting relations of industrial SMEs***

Subcontracting activities can be divided into industrial and trade ones. In industrial subcontracting products are used as components in the contractor's manufacturing process, while trade subcontracting means production intended to be wholesaled by another company (Yurukova, 2009, p. 144). There are not many variations in the views about the essence of the industrial subcontracting in literature. A detailed definition was given by Thorburn and Takashima in 1992, who described it as "the provision, by one firm to another, of relatively specialised inputs, which are then incorporated into the final product of the buying firm. These inputs are distinguished from inputs of a standard kind such as raw materials or electric power, which can be purchased on the open market... It has the implication of a continuing (though not necessarily continuous) relation between the buying firm ... and the subcontractor which may be backed by legal contract, or trust, or both. Often, though not

always, the supplying firm may be small in relation to the principal." (Cited from Curran&Blackburn, 1994, p. 30). Usually the aim of such dealings is a synergetic effect for both enterprises to be achieved and the collaboration may have a strategic character for one or both sides.

Stimuli and motives for SMEs to become subcontractors could be various. However, some important advantages of subcontracting activity might be: stable production orders and sales without considerable marketing costs and risks (the juridical, financial and other responsibilities for the completion and sale of the end output is taken by the contractor); opportunities for borrowing technical and managerial know-how from the client; getting consultancy by the large company in different areas – manufacture, HRM, organisation; gaining experience for working in international environment; opportunities for creation and adoption of product and process innovations, which have an assured market; specialisation in one activity and, as a result – achieving economy of scale; increasing the image when working for well-known clients (Yurukova, 2007, pp. 465-466).

Some risks and weaknesses of subcontracting activity for SMEs can be related to: small size of the profit; irregular orders (lack of long-term contracts); loss of touch with the wide market; loss of independence, flexibility, innovativeness, valuable know-how, etc. (Yurukova, 2009, p. 146). SMEs subcontractors could also face some challenges connected with difficulties to deal with the globalisation's peculiarities; lack of necessary resources or managerial capabilities that hinder them to take on more voluminous and complex tasks (Harizanova&Tsvetkova, 2013, p. 124-125); complicated procedures of negotiation; too high requirements for quality control, production schedules and personnel qualification; etc.

With time, through using advantages and avoiding disadvantages of the subcontracting activity, SMEs could develop in two main directions:

First, it is possible for them to turn to more perspective activities. From "fire brigade" used for compensation of lack of production capacity of the large enterprises and some other "emergencies", they could transform into specialised subcontractors, which possess a technology that the client companies need.

Second, with the help of the knowledge, experience and resources gained, they could invest in developing their own products and in their market realisation (to switch to the first business model). In most cases the manufacture of products with its own brand is tied to larger profits and growth opportunities, but there are many risks that must be stipulated and reduced.

### ***Subcontracting as a buyer-supplier strategic partnership***

The following exposition synthesises the views of many authors regarding the nowadays manner of interaction between subcontractors and their clients, that replaced the traditional model of relationships and leads to synergetic and lasting effects for both parties.

The interest in the role of the supplying enterprises increased as a result of the decentralisation processes of large companies started in the 1970s and widely discussed in the specialised literature (Villa&Panizzolo, 1996; Cagliano&Spina, 2002; Cousins et al., 2008; etc.). In the subsequent decade, however, subcontracting relationships have been usually seen as unequal interactions based on the predominance of power of the buying companies, influencing the decisions and strategies of the suppliers. The subcontractors have not had

many opportunities to differentiate their offers and have usually been chosen by manufacturers due to their geographical proximity and/or low price of the services. Such a position in the supply chain has not always been attractive to the small companies and therefore has been perceived as inevitable, but the only acceptable solution for SMEs that did not possess the necessary resources or abilities to be independent producers.

After the 1980s, the role of subcontractors gradually began to change. Products and markets developed by large manufacturers became more complex and the companies started to face difficulties to coordinate the use of a variety of external resources and competencies supplied by multiple subcontractors. For this reason, they increasingly began to rely on a limited number of privileged subcontractors (delivering more complete and/or complex products, as well as a larger volume of work), interrupting their orders to other suppliers (Harizanova&Tsvetkova, 2013, p. 130; Vasilska, 2020, p. 741). Subcontracting networks became pyramid structures in which the contractors relied on a small number of strategic suppliers, which in their turn assigned tasks to a significant number of lower-tier subcontractors. Examples of this evolution of subcontracting relationships can be found firstly in the automotive industry, as well as in some other machine-building sectors.

In this light, the importance of subcontractors is much greater than that of ordinary suppliers of production capacity. Those of them who have managed to become major suppliers to large-scale manufacturers could generate high added value in the activities they perform. This is due to the greater opportunities for differentiation based on specialised technology, flexibility or low cost.

With the presence of such prerequisites, *an industrial subcontracting partnership* can be built. This concept is based on the modern approach to organising and managing the relationship between large manufacturers and their suppliers, characterised by tight specialisation and technological expertise of subcontractors and leading to sustainable, fair and, to some extent, balanced relationships.

In addition to the above, the main features and advantages of the current subcontracting model can be pointed out:

Growing demand for reliable subcontractors with which large manufacturers could establish continuous and profitable partnerships, supported by long-term contracts;

Involvement of subcontractors still in the phase of R&D;

Increased integration and complexity of the products produced by the subcontractors;

Parts and products manufactured by subcontractors are supplemented with accompanying services, such as various R&D, design, information, logistics and other services (Villa&Panizzolo, 1996, p. 39);

Growing exchange of information and know-how between buyers and suppliers;

Acceleration of the innovation processes and taking more and more of them by subcontractors;

Increased flexibility of the production processes;

Cost reduction – a common task of contractors and subcontractors;

Reduction of delivery time (“just in time” production);

Strategic commitment of the goals, production plans and management philosophies of both companies;

Mutual dependency caused by the complexity of the relationships and the high investments needed (Gubik, 2005, p. 35).

In conclusion it can be pointed out that nowadays the industrial production, characterised by the increasing competition in terms of conquering new markets, product quality and cost reduction, often leads to the transformation of non-binding subcontracting relationships between established producers and their subcontractors into strategic ones.

### **Methodology and data sources**

Partnerships between enterprises of different sizes, incl. subcontracting ones, should be defined as strategic, based on an investigation of all parties involved. However, the research available in the literature is rarely voluminous and comprehensive enough and targets mainly large enterprises that have chosen to partner with smaller ones for various reasons. In addition, different business relationships may be of strategic importance to only one of the parties involved. It is really interesting, the point of view of the “weaker” in such relationships SMEs to be examined.

Part of the results of two empirical investigations (one – individual, and the other – collective) is presented in the current paper. In both of them the author aimed to identify relationships that, due to the presence of certain characteristics, can be defined as strategic for subcontractors, and to indirectly determine whether they are the same for the contractors.

The author's *individual research* investigated 60 Bulgarian enterprises (selected after a preliminary pilot survey) meeting the following criteria:

to be micro, small or medium in size;

to be industrial ones;

to work predominantly as subcontractors;

to have at least one contractor that they consider as a major business partner.

The survey was aimed at identifying the most prevalent characteristics of the relationships between SMEs and their major partners that, accordingly, could be determined as the main features of subcontracting relations that are of strategic importance to the suppliers. The importance of the relations for the buying companies was indirectly assessed by the opinion of their subcontractors.

The author also uses data obtained from a representative survey of 500 Bulgarian SMEs developing different kinds of international activities. The survey was part of a fundamental scientific *research project* titled “Determinants and models of the competitive performance of small and medium-sized enterprises in international business environment” (2016-2021), funded by the National Science Fund of the Bulgarian Ministry of Education and Science, implemented by a research team with the participation of the author of this paper. Many of the investigated SMEs work as subcontractors for foreign companies but for 35 of them this is a main activity. All these 35 respondents answered that the partnership with the foreign

contractors (listed among many other possible business partners) is of strategic importance for the development of their businesses. The main issues that the author verified within this investigation were whether there are competitive advantages that are strengthened or newly acquired by SMEs as a result of the business partnership with their main contractors, as well as whether there are some other benefits for them.

### **Summarised results of the empirical verification**

As a result of the conducted empirical investigations (described above), the most important criteria for the perception of a **contractor as a strategic partner**, which had a decisive influence on the development of the studied Bulgarian SMEs subcontractors, emerged. They are:

*long duration of the business relations* – this turns out to be the most important indicator for strategic orientation, because most of the surveyed companies define as their main business partner the contractor for which they work the longest;

*large-scale orders* – the work assigned by the main contractor forms a significant share of the turnover of the surveyed enterprises;

*delivery of a (part of) product that is important for the contractor* – many of the studied subcontractors produce complex or fully completed products that allow them to develop their potential, to achieve a good profit, and, at the same time – to satisfy the contractor's requirements;

*implementation of changes, reorganisations and innovations* for the needs of the contractor's production, which are also valuable for other aspects of the enterprises' activities, as well as for their future development;

*acquisition of new or strengthening existing competitive advantages* – big part of the research objects has gained specialised technological expertise, has increased the speed and/or quality of the provided service or has reduced its costs;

*access to key resources* – technologies, equipment, production materials, information, consultancy, etc.;

*growth and development* – more than two thirds of the enterprises have hired new employees and have increased their turnover as a result of the increased and complicated orders of the contractors. Continuous financial inflows have led to investments not only in the expansion of cooperation, but also in development in other areas;

*size and prestige of the contractor* – huge part of the contractors are large enterprises with established reputation or production units of multinational corporations;

*building an image and finding other strategic partners* – the acquired status of a reliable supplier of a well-known manufacturer in many cases leads to attracting new large customers (mainly – foreign ones).

Another important conclusion can also be drawn out of the empirical research: a valuable **subcontracting partnership** is built when the relationship is of strategic importance for both parties involved. Based on the additional information obtained from a large part of the surveyed enterprises, the main characteristics of such a partnership can be deduced:

*mutual benefit based on specialisation and cost reduction* – both parties specialise within their areas of competence, which leads to economies of scale. At the same time, they reduce or eliminate some costs as a result of the established subcontracting relationships;

*sustainability of relations* – both companies benefit from the long-term cooperation, which allows them to plan activities, to cut efforts and costs for finding new counterparties;

*precise fulfilment of obligations and certainty in the relations* – the constant correct execution of the formal agreements leads to achieving certainty in the relations and turning the parties into reliable for each other partners;

*fair distribution of the risks and the benefits of the collaboration* depending on the contribution of each party;

*presence of an innovative element in the relationship* – the sustainable subcontracting partnerships are based on the availability of specialised technological knowledge or equipment of subcontractors, not on benefiting from their cheaper services;

*good interpersonal relationships, tolerance and coherence in doings* – personal cooperation between entrepreneurs or employees, who are responsible for communication with the partner, leads to less problematic business relationships. Both sides are making compromises in order to keep and develop the cooperation;

*mutual and comparable dependence, leading to difficult replacement of the partner* – the mutual mid or high-level dependence is important because neither party can easily end the relationship. This provides security for both companies, as well as opportunity for strategic planning of the business. The dependence should not be used by one of the parties to harm the interests of the other.

An important prerequisite for the development of sustainable subcontracting relations is the presence of relative comparability in the size and resources of the two enterprises. The empirical investigations give grounds the conclusion to be drawn that established strategic subcontracting partnerships predominantly have the medium-sized enterprises, and their growth is connected to the increasing orders of the key customers during the years of collaboration. The absence of a pronounced dominance of one of the sides in the relationship is a condition for building a mutual strategic partnership. Nevertheless, the empirical results show that balance is not a common feature of these relationships. The difference in the scale of the companies or in their degree of dependence leads to a predominance in the power of one of the parties. When this advantage is not used incorrectly, a strategic partnership can be built after all.

## **Conclusions and recommendations**

Subcontracting is a widely used method of division of labour between industrial enterprises. The subcontractor usually offers something that the large manufacturer is not able to do easily and/or profitably by itself. Sometimes the latter is dependent on the specialised knowledge of the subcontractor. The buyer company, in turn, secures the subcontractor's market and brings other benefits, especially when it is considered by the smaller firm as a partner.

The set of criteria that would determine a contractor as a strategic partner should be unique to each company. It could differ according to the subcontractor's industrial specialisation, size,

innovation focus, strategy, goals (growth, diversification, internationalisation), as well as depending on the characteristics of the contractor and the subject of their relationship. Nevertheless, based on empirical investigations conducted among Bulgarian SMEs subcontractors, the current paper presents the most important criteria for the perception of a contractor as a strategic partner, as well as some key characteristics of the mutual subcontracting partnership, that may be applicable in other national contexts.

The empirical results presented in the paper and the analyses made provide a basis for making recommendations to entrepreneurs and managers of SMEs that work as subcontractors. Basically, in order strategic to the supplying companies partnerships to be built, they must wish it and pursue it through behaving proactively. To enter the subcontracting networks of well-known manufacturers or to turn accidental relations into long-term and even strategic ones, it is necessary for the subcontractors to have specific competitive advantages or to be ready to acquire them in the short term. They should develop themselves purposefully in order to become preferred, reliable and hardly replaceable partners of reputable manufacturers. Moreover, they should strive for building relations that are of a strategic importance for both parties because the mutual subcontracting partnerships are more beneficial and stable. Building such relationships requires desire, time, trust, tolerance, precise fulfilment of obligations and coherence in plans and activities.

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## Accounting Data and the Balanced Scorecard - Goals and Indicators

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### Abstract

In their study, Relevance Lost: The Rise and Fall of Management Accounting, Johnson and Kaplan concluded that management accounting systems since the 1980s have failed to meet the new challenges of a changing environment. Among other things, because managerial accounting has been subordinated to the needs of financial accounting. Financial accounting cannot provide adequate information to management and does not support strategic decision making. The reason for this can be found in the operational logic of financial accounting. Financial accounting is past-oriented, it evaluates (economic) events in money, and thinks in the short term. Would all this mean that financial accounting data cannot be used to support long-term decisions? In our study, we point out the connection between financial accounting data assets and strategic decision support. Our research question focuses on how financial accounting data, including an invoice issued by a company, can be used in Balanced Scorecard perspectives. Based on the content of the Balanced Scorecard, we want to point out where and what kind of relationship can be observed between financial accounting data assets and the BSC. Through a case study, we will present the strategic goals as well as the indicators suitable for measuring the goals. These will be presented for all aspects of the Balanced Scorecard.<sup>1</sup>

**Keywords:** Financial Accounting, KPI, Strategy, Balanced Scorecard

(JEL classification: M49)

### Introduction

#### 1. Literature Review

##### 1.1. Balanced Scorecard

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In today's highly competitive environment, financial indicators alone cannot provide a direction for the future, they typically provide a picture of some of the actions of the past, so they are only retrospective indicators. Theoretical research and practical experience also confirm the need for both financial and non-financial indicators in corporate performance evaluation. A balance must be struck between them and they must be combined in a complex system of indicators. This is achieved by the Balanced Scorecard (BSC) indicator system. (Musinszki – Süveges, 2019)

The BSC is a balanced strategic evaluation system based on performance indicators.

- Balanced because:
- it seeks to balance the perspectives within the system,
- it takes into account both objective, easily quantifiable outcome indicators and subjective performance indicators that depend somewhat on individual judgment.
- strikes a balance between short-term and long-term goals.
- Strategic and based on performance indicators, because it translates strategic goals and initiatives into concrete metrics, as a result of which the strategy is implemented.
- Evaluation system: because the set target value is continuously compared with the actual performance, feedback can be implemented based on deviation analysis.

The BSC perspectives (finance, customers, internal processes, learning and growth) seek answers to four questions (or four groups of questions):

- What do the owners expect?
  - How should the company be positioned towards investors?
  - What needs to be achieved for the company to be financially successful according to the owners?
- What performance do customers expect?
  - What do we need to do to satisfy customers?
  - How to present ourselves to customers so that we can successfully implement our strategy?
- In which processes should outstanding performance be provided?
  - Which processes do we need to optimize to meet the expectations of our customers?
  - In which processes do we need to deliver excellent performance to keep our customers and owners satisfied?
- How can the capacity for change and development be maintained in the future?
  - How does the organization need to evolve to realize its vision?
  - What do we need to do for organizational and individual learning and innovation, to be able to change?

Answers to these questions can be used to set goals, translate goals into indicators, and select tasks and actions to be performed. Each of these criteria is accompanied by a so-called scorecard, which includes

- the strategic goal,
- the indicators,
- the expected values of the indicators, and
- actions required for implementation. (Kaplan – Norton, 1992, 1996)

The four-element system provides a transparent structure and thus makes it possible to filter out actions and goals that deviate from the strategic direction, even at the operational level. By continuously examining the goals and actions formulated within each aspect, the four perspectives can be coordinated. (Kaplan – Norton, 2004)

By designing the BSC, managers need to align financial goals with the company's strategy. The financial goals are at the centre of the goals and indicators of the other three perspectives. Each of the indicators is part of a causal chain that is expressed in the improvement of financial performance. This, of course, is no accident, as financial performance arises as a result of operational performance. (Fenyves et al., 2018, Veresné, 2013)

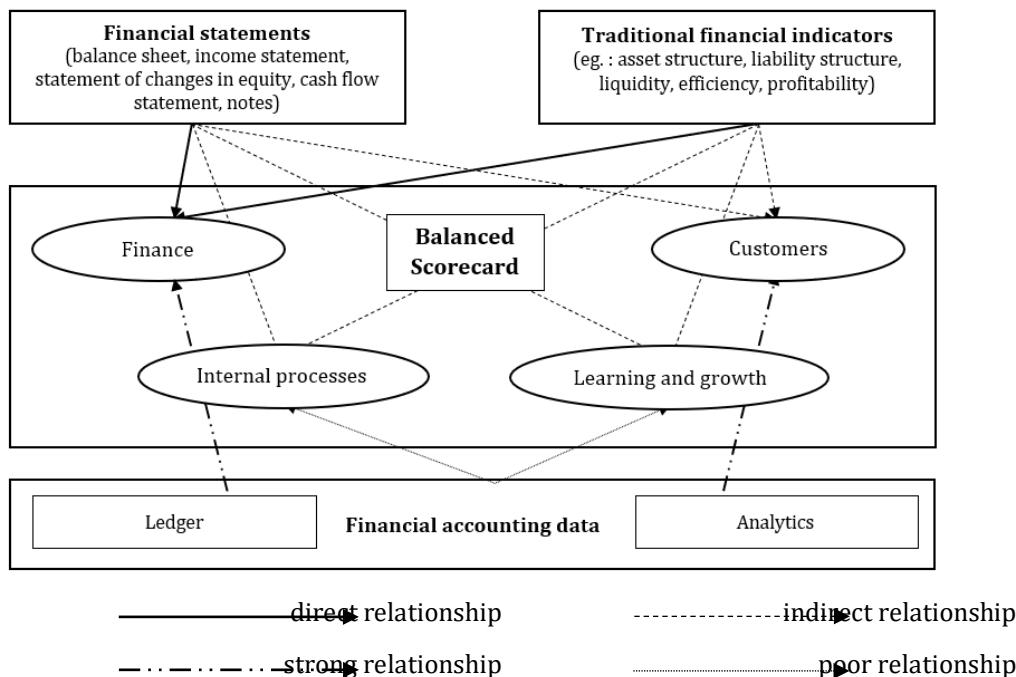


Figure 1: Relationship between financial statements and Balanced Scorecard

Source: Own edition

## 1.2. Integrating Financial Indicators into Strategic Decision Support Methods

The limitations of financial statements partially affect synthetic and analytical records as well as the usefulness of the supporting basic documents. One one hand, as they are directed at past events, on the other hand, as a result of the accounting (and taxation) system. At the same time, the problem of the value limit and the business year can be solved. All of these come back when we look at the basic document of the invoice as a basic accounting and taxation document.

In order to harmonize the VAT rules applicable in the member states of the European Union, council directive 2006/112 / EC on the common system of value added tax lays down the general principles governing the issue of invoices. The directive sets out the rules for invoicing in a total of six sections. The definitions partly define the concept of "transmission or making available by electronic means" and then define in a separate section which documents are to be considered as invoices. Among other things, this is where the documents or messages in paper or electronic form that can be accepted as invoices are listed. After the sections on the issue of invoices and the content of invoices, the directive describes the electronic transmission of the invoice and then, among the simplification measures, highlights those aspects of invoicing for which member states have more or less room for manoeuvre, so they can deviate from the directive. This is followed by a description of the specific obligations of invoice preservation and the rules applicable to tax registration in the next chapter (Szente, 2019).

Invoices issued pursuant to Articles 220 and 221 of the Directive shall bear the following particulars:

- the date of issue of the invoice;
- a serial number consisting of one or more lines of numbers that uniquely identifies the invoice
- the value added tax identification number used by the taxable person to supply the goods or services;
- the value-added tax identification number of the customer in cases where he is the one liable to pay the tax,
- full name and address of the taxable person and the customer (customer);
- the quantity and nature of the products sold or the extent and nature of the service provided;
- the date of completion or completion of the supply of goods or services;
- the tax base per tax rate or tax exemption, the unit price excluding value added tax and any deductions, discounts or refunds if these are not included in the unit price;
- the value added tax rate to apply
- the amount of value added tax to pay

- any other indication that the supply of goods or services is subject to a tax-free or reverse taxation procedure, in the case of a tax exemption or when the tax liability is borne by the purchaser of the product or the recipient of the service;
- other data in case of sale of new means of transport, travel agencies, second-hand goods, works of art, collection pieces and antiques
- the value added tax identification number and the full name and address of the tax representative, in case a tax representative is liable to pay the tax (Council Directive 2006/112 / EC of 28 November 2006 on the common system of value added tax, Article 226)

Simplification of the basic possibilities for implementation of Article 238 is possible, but also in these cases the number and the following:

- date of issue of the invoice;
- the name of the taxable person;
- a description of the products or services sold;
- the amount of value added tax due or the information needed to calculate it (Council Directive 2006/112 / EC of 28 November 2006 on the common system of value added tax, Article 238)

Under Article 238, simplification measures may be implemented, but in these cases, the invoice still must contain the following information:

- date of issue of the invoice;
  - the name of the taxable person;
  - an indication of the type of products sold or services provided;
- the amount of value added tax due or the information needed to calculate it (Council Directive 2006/112 / EC of 28 November 2006 on the common system of value added tax, Article 238)

The basic rules of the obligation to issue invoices and receipts are not accidentally influenced by the directives on value added tax, "since the invoice is primarily a receipt for this type of tax. The basic purpose of the rules is to ensure that the invoice properly reflects the actual transactions that take place in reality. Of course, this does not mean that the bill is not relevant in other areas" (Barta, 2017, p.1), but it does determine the nature and possibilities of the use of the data content. That is why it is necessary to combine financial and accounting data with a complex system of indicators.

But how do financial statements and the Balanced Scorecard relate? Let's take a brief look at each point of view. Based on the content of the perspectives, we would like to point out where and what connection can be observed between the financial statements and the BSC.

The key question from a financial perspective is: How do owners determine a company's position? Indicators from a financial perspective indicate the extent to which the strategy and its implementation contribute to an organization's financial position, most often to its

profitability. Financial goals are mainly related to profitability, return on assets or increase in sales revenue. Here are the classic financial indicators such as sales revenue, costs, profit, working capital. And all of these appear directly in income statements. However, sales revenue, cost and profit are only the starting points. Based on these, a multitude of indicators can be determined. Including but not limited to:

- Sales Growth Rate,
- Operating Profit Margin,
- Incremental Fixed Capital Investment,
- Incremental Working Capital Investment,
- Earnings Before Depreciation, Interest and Taxes,
- Earnings Before Interest and Taxes,
- Return on Investment,
- Return on Assets,
- Return on Sales,
- Return on Equity.

A common feature of all indicators is that the data needed to calculate them can be found in the financial statements. (Tóth and Zéman, 2018)

The key question from a customer perspective is: How do customers judge an organization's performance? When developing a customer perspective, it is necessary to identify the customers and market segments where the organization wants to compete. Financial goals can only be met by an organization if it produces products or provides services that are valued by customers. We cannot satisfy the needs of all customers, so it is advisable to set target values for each segment. The customer aspect is therefore fundamentally focused on making the relationship with customers fruitful and lasting in the long run. Based on the recommendation of Kaplan and Norton (Kaplan and Norton 1992), indications of market share, product range, customer satisfaction, complaints, returns, profitability of customer groups, number of retained and new customers, etc. are included here. The financial statements (balance sheets) contain the customers and may contain the evaluation of the customers may (eg notes). The analytical records behind the financial statements show, among other things, the number of old and new customers and the profitability of customers/customer groups. At the same time, we do not get an answer to, for example, market share and customer satisfaction. So financial statements and traditional financial indicators appear in the customer perspective of the BSC, but they alone cannot fill the customer perspective with content.

The key question of the internal processes perspective: In what processes does an organization need to deliver outstanding performance? From this perspective, processes need to be identified where the organization needs to deliver outstanding performance in order to meet the objectives set out in the financial and customer perspective. Previous approaches have focused on existing processes rather than those that are relevant to the implementation of the strategy. Another novelty of Norton and Kaplan's approach is the integration of the

innovation process into internal processes. Long-term success requires future orientation, the mapping of future consumer needs, and (new) products and services that can be used to meet the expected needs. (Kaplan and Norton 1992, 1996) These include indicators on supply chain management, organizational innovation, and process regulation. Typical indicators of the internal processes point of view: product/service quality, efficiency, lead times. Financial accounting can only partially track organizational, for example production processes. Accounting is suitable for tracking resource usage (cost accounting). Partly suitable for monitoring quality processes (e.g. scrap, scrapping). However, these capabilities of the accounting system cover only the determination of a few indicators. Thus, financial accounting can typically only support the BSC in an indirect way.

The key question of the learning and growth perspective is: How to preserve the development and change capacity of the organization? The learning and growth perspective provides the background that ensures the success of the previous three perspectives. A short-term financial approach can easily result in the organization not paying enough attention to its employees, the skills of its employees, and its information systems. The organization can only achieve its strategic goals by investing in people (training), systems (information system) and procedures (information technology) and by encouraging its employees to act in accordance with the organizational goals. The three pillars of the perspective are therefore:

- skills of employees,
- information system skills,
- alignment of motivation, authorization, individual and organizational goals.

Measuring the abilities of employees and motivation are not classic accounting tasks. Financial accounting, like the previous point of view, can only support this point of view by relying on a database of analytical records. For example, the simplest, most common indicator of productivity is sales per employee. Or, to measure employee retention, the (key people) turnover rate is the most often quantified.

## **2. Research Methodology and Results Balanced Scorecard and Accounting Data Assets - Case Study**

An additional possibility to use financial indicators is to use them not alone but in addition to and in combination with strategic decision support systems. Today, there are many strategic decision support methods, which can be grouped according to the following aspects: the purpose of use (situation analysis, setting strategic directions and goals, methods of strategy breakdown, strategy monitoring procedures), levels of analyzed and examined environment (micro, industry competition -, macroenvironment) the position of the examined environment in relation to the company, or the possibility of influence (tools for analyzing the external and internal environment) and the complexity of the methods (simple and comprehensive methods).

The special relationship between financial indicators and strategic decision support methods lies in the fact that financial indicators can not only complement the tools for measuring and analyzing the environment and strategy, but in many cases are essential elements for an accurate and comprehensive assessment of strategy and the corporate environment (excellent

examples include tools for measuring and analyzing corporate life cycle, product life cycles, and industry trends, among others). (Ansoff 1957, Levitt 1965, Porter 1979, 1980, 2008)

Let's review the above-mentioned thoughts through a case study!

The company sells children's furniture and is present in the domestic market and neighbouring countries (Austria, Slovakia). It is among the market leaders in terms of sales in Hungary, it has entered the international market in Austria 5 years ago and in Slovakia 6 years ago. He has 30 years of manufacturing experience in Hungary. The centre is located in Győr, where there is also a warehouse and a showroom, and abroad there is a showroom connected to 2 warehouses. One in Vienna, another in Bratislava. Orders from customers can be placed in person at all three locations, and payment methods can be by credit card or cash. Another ordering method is possible through the website, it is in Hungarian, but customers can choose from 3 locations, so they can place their order in German or Slovak, which they can pick up or deliver from the appropriate centre, in case of online ordering the price of the ordered products must be paid in advance. Information about resellers is that the company expects a payment period of up to 60 days.

In order to track and plan for results, company management wants to create a scorecard that can track company performance. The goal for professionals is to help produce metrics that measure a company's performance.

### **Financial point of view**

**Target function:** Within the company's total revenue ratio, the share of foreign revenue should increase by at least 10% compared to the previous year, increase the share of revenue to corporate customers in domestic revenue by 10% compared to individuals. Another expectation is that the company group should sell 15% more of the key product each year!

#### **Indicator:**

1. *Value of an average order for an individual/company broken down by country on an annual basis*

Average order value: Considering a business year, we consider the period from January 1 to December 31. Total order value / total number of orders. The report is prepared on a monthly basis, and the result can be filtered by country. (Multiple years could be compared in this way, allowing you to keep track of, eg. the average order value for the last 3 years in March.)

2. *Distribution of revenues by country, broken down by year, showing separately the values of individuals and companies*

The order counts for the country from which the delivery takes place! So, if you order from Győr to Slovakia, the place of sale is Hungary. (In this case, it would be useful to examine who are those who order from, eg. Slovakia, because Győr is closer to them, they get the product faster, and the same is the case in Austria. If there is a solution here, we can further increase revenue with the right business decision, this idea is not specifically related to the indicator -just a comment- could it be a problem with the employees or the foreign branch itself?)

3. *Top10 Revenue from sales of key products / total revenue*

Top10 Key Product: Most sold products. Here we examine products that we have been selling for at least 5 years.

## Customer perspective

**Target function:** increase sales from top customers by at least 15%. Increase sales of key products by top customers by 20% and increase the ratio of payments via credit card and bank transfer by 20%. (TOP10 buyer: Companies that order in the highest value in their country within a year, those belong here who order for at least 20 million HUF in a year. (Individuals will not belong here because the purchase of 1-2 furniture in a year is typical there)

### Indicator:

#### 1. *Top10 customer indicator*

The ratio of Top10 customer purchases to total company value and total annual revenue, broken down by year and country.

#### 2. *Individual ratio*

The ratio of the value of purchases made by all individuals to total sales. Annually broken down by country.

#### 3. *Top10 key product buyers indicator*

The proportion of sales of top10 key products sold in a given year among customers by country. (it is worth examining the results of the last 5 years at most, due to entering a foreign market)

## Internal processes point of view

**Target function:** To increase sales of products launched in the last 3 years by 20%. (New product: product introduced within 3 years.)

### Indicator:

#### 1. *Sales indicator*

The ratio of revenue from new products to total revenue. (by country, broken down by month)

#### 2. *Number of products sold indicator*

How many pieces of the examined products have the company sold in the last 3 years. (by country, broken down by month)

#### 3. *Product defect indicator*

The proportion of new products taken back from the customer because of some manufacturing defect compared to all new products sold. (packaging defect, damaged product, missing parts - broken down by country per month).

It shows how good the manufacturing technique is for the new products we produce. How do we want to grow if we produce it incorrectly? As a result, the value of other orders may fall, and the confidence of customers and buyers may decline.

### **Learning and growth perspective**

**Target function:** To reduce the proportion of cancellation invoices issued by 20%. Improve the error rates of correct invoices by 30%.

#### **Indicator:**

##### *1. Cancellation invoice indicator*

What percentage of all invoices issued by billing clerks were cancelled. The report is prepared on a weekly, monthly, annual basis, and includes the name and ratio of the employee. The report is prepared by region.

##### *2. Top billing indicator*

In addition to the number of invoices issued by employees, the error rate is also indicated. (Assuming the billing program records the data of the creator as well.)

The report is prepared in daily, weekly, monthly, annual breakdown, it contains the name of the given employee, the number of issued pieces, and the error rate. The report is prepared by region. Employees are reported in descending order. The one who issued the most invoices during the given period will be listed above.

## **4. Conclusions**

As financial accounting cannot provide adequate information to management, it does not support strategic decision-making, so managers need complex systems that can be used to plan for the future using data based on the past. Our research question focused on how financial accounting data can be used to support long-term decisions. In our study, we pointed out the link between financial accounting data assets and strategic decision support and used the case study methodology to show the connections between financial accounting data assets and the BSC, and also provided examples of the Balanced Scorecard, strategic goals and indicators suitable for measuring the goals.

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## A New Public Policy and Economic Approach to Cultural Sustainable Tourism in the Andes

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### **Abstract**

This research examines the current reality of the sustainable cultural development, in the Cotacachi –Cayapas Ecological Reserve and its surroundings, part of the UNESCO Global Geoparks (2019), as a world heritage sight located in South America, in the inter-Andean region of the Republic of Ecuador. The diverse cultural and ethnic focusing on the situation of indigenous and peasant people, looking at the processes of their self-awareness, validation, and empowerment. The problems faced by this community are diverse in terms of their empowerment, low levels of education, low levels of economic development, and social, cultural and political discrimination. Their relationships are not stable and their incomes are variable, because they depend on farming and producing livestock on their small plots and the precarious nature of available work in their rural environment. The research enables us to conclude that participation in organizational groups and processes has strengthened the capacity of leadership to collaborate more actively and effectively in the progress and development of their indigenous and peasant communities. This, in turn, enhances success of their projects and makes possible the administration of public and private partnerships that permit social and institutional recognition, contributing to improvement in their standard of living and quality of life and to finds and alternative sustainable economy model based on a cultural tourism.

**Keywords:** Indigenous and peasant people, alternative economy, sustainable cultural tourism, political participatory and human rights

## Introduction

Sustainable cultural tourism has received much attention in recent years due to the western belief that indigenous people are the protectors in order to consider a space where the human being is reunited with the past, with a history. Moreover with an infinity of natural, cultural and gastronomic resources, which at first could control as a source of income in which offer important economic benefits, but becomes the exact point where the being human must rethink. However, it has been found that the economic value is seen from the extraction of resources with a capitalist sense, without considering other types of wealth, in which the human being is located.

As a consequence, is necessary to consider valuing a frame beyond the material and the simplicity of the economic and to find a mechanism that allows generating a type of culture that transcends economic expectations and seeks human interest and wellbeing, applying a sustainable transformation through the empowerment and awareness of a new vision of a different economic development.

Undoubtedly, it is evident the neglect of the governments regarding the regulation that drives and supports this historically undervalued sector, as a result , of the null participation in projects, laws that strengthen their communities. Education as an empowering tool might help indigenous and peasant people.

The present paper presents a set of criteria for making a social change and improve their conditions of living by taking action while having knowledge and skills of generate a new value of their Andes culture.



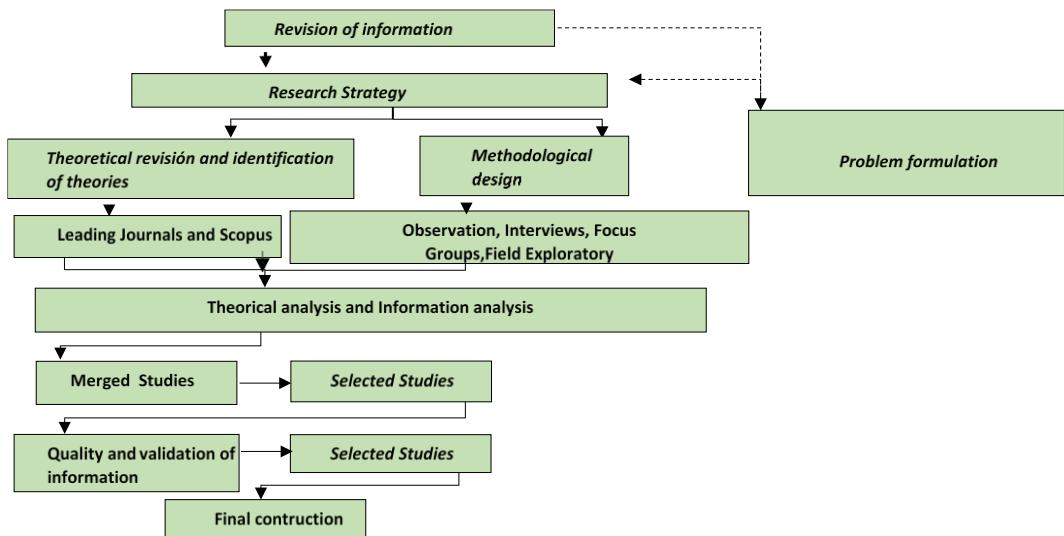
Cuicocha –Lake (Own Resource, 2019)

## Methodological Procedures

Qualitative research is interested in the perspective of the subjects themselves (Millan 1974: 38). The focus of the research approach allows for a perspective from the subject's point of view and their culture and environment. It is framed in a research model with greater focus on social-cultural change and alternative tourism because it is based on a recognition and acknowledgment of the intrinsic value of the knowledge of the reality in which the subjects live. It is a systematic process of learning, since it implies that people carry out critical analysis of the situations in which they are immersed.

An approach was made through participant observation, sharing the circumstances, from the daily life of the social subjects, their activities, interests' preferences and environment. Participant observation can be considered the quintessential example of capturing the nature of reality, rather than alternative techniques of qualitative research methods (Callejo, 2002).

Field visits were conducted where the life situation of indigenous and peasant people, their economic, cultural and social conditions, the way of life, working conditions, productive activities and daily life were observed. An in-depth interview was conducted, like an ordinary conversation, with some particular characteristics of participant observation applied (Callejo, 2002). It is about capturing the meanings in an open dialogue that encourages conversation. The interview allows access to the universe of meanings from the perspective of the actors, not only the texts but the situations of the context from the vision and cultural approach of the same. In order to carry out the interviews, it was necessary to establish preliminary contacts, coordinate the times and agree on places, in an attempt to accurately capture the reality of the subjects,



*Source: Self-made*

This paper is based on the systematic review approach, which has been used to answer the research questions presented above. The aim of this working paper is, therefore, to identify all relevant studies of the sustainable cultural development and according to the current state of the research. Therefore, an evaluation of relevant literature and an examination of the current state of affairs will be undertaken.

## Toward a Comprehension of Andean World

In the Andes and in the Amazon, the ethno-peasant populations have their own way of conceiving and ordering their lives. This corresponds to a type of perception, political and legal organization of the world, which has its own roots and it is nourished by pre-hispanic society. Despite the efforts of the hegemonic classes in Latin America to "integrate" in one the characteristics of western societies, a pre-hispanic spirit remains current and vigorous through knowledge, technologies and values that characterized the pre-hispanic collective organizations called *ayllus*<sup>1</sup>. Even tough elements from the West are adopted and adapted, they are always in force because they are applied to processes of constant change. As Arguedas, a Peruvian thinker stated once: "the pre-hispanic society remains in force despite having undergone many changes" (García, 2007, pág. 74).

Going beyond this, Andean philosophy is the consciousness of the other, female or male, who has been marginated, alienated, beaten and forgotten. (Estermann, 2006, pág. 13). Andean rationality expresses a serial of principles that constitutes and Andean logic which is its rationality *sui generis*. These principles provoke material manifestations in cosmology or *pachasophia*, anthropology or *runasophia*, ethics or *ruwanasophia* and theology or *apusophia* belonging to the Andean world.

According to Estermann it is possible to talk about an Andean logic meaning a basic structure in the Andean thinking. Following this, Andean rationality reveals, before all, a principle of relation of all with all. Besides, this rationality also implies symbolism, affectivity and integration. (Sobrevilla, 2008, págs. 233-234). If we can feel this way of thinking and relation, it would be easier to comprehend this popular saying from the indigenous world: "*Ruraqman chayaspa, rurapakuna; mikuqman chayaspa, mikupakuna; tusuqman chayaspa, tusupakuna; yachaqman chayaspa, yachapakuna*" (When we get to someone who is working, let us work with him; when we get to someone who is eating, let us eat with him; when we get to someone who is dancing, let us dance with him; when we get to someone who knows, we can learn with him) (García, 2007, pág. 77).

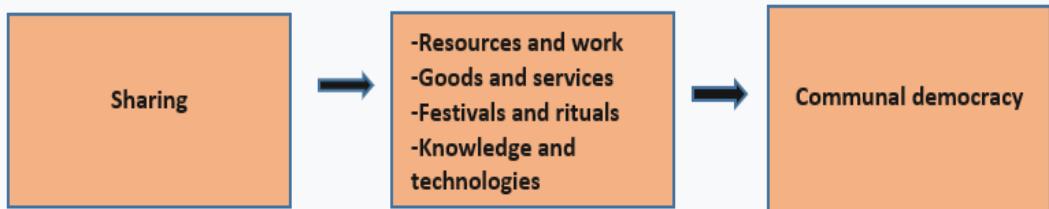
The aim of this essay is the comprehension of sustainable tourism in a world where the indigenous cosmologic thinking predominates. So it is necessary to focus on the Andean thinking first in order to see the way it could be apply to tourism in a sustainable way.

Often in the Andean communities the vision and logic of the ayllu are maintained when they refer that the community is a single thought, a single feeling, a single force. That is why the maxim summarizes the tradition of the Andean ayllu, which is the product of a millennial experience that gives strength to what Arguedas once suggested: "the forging of a magical socialism that would be built from the Andean culture and without "tracing nor copy". The Andean community now represents that tradition of the Quechua and Aymara ayllus. Its historical and at the same time projective meaning seeks the construction of a society with

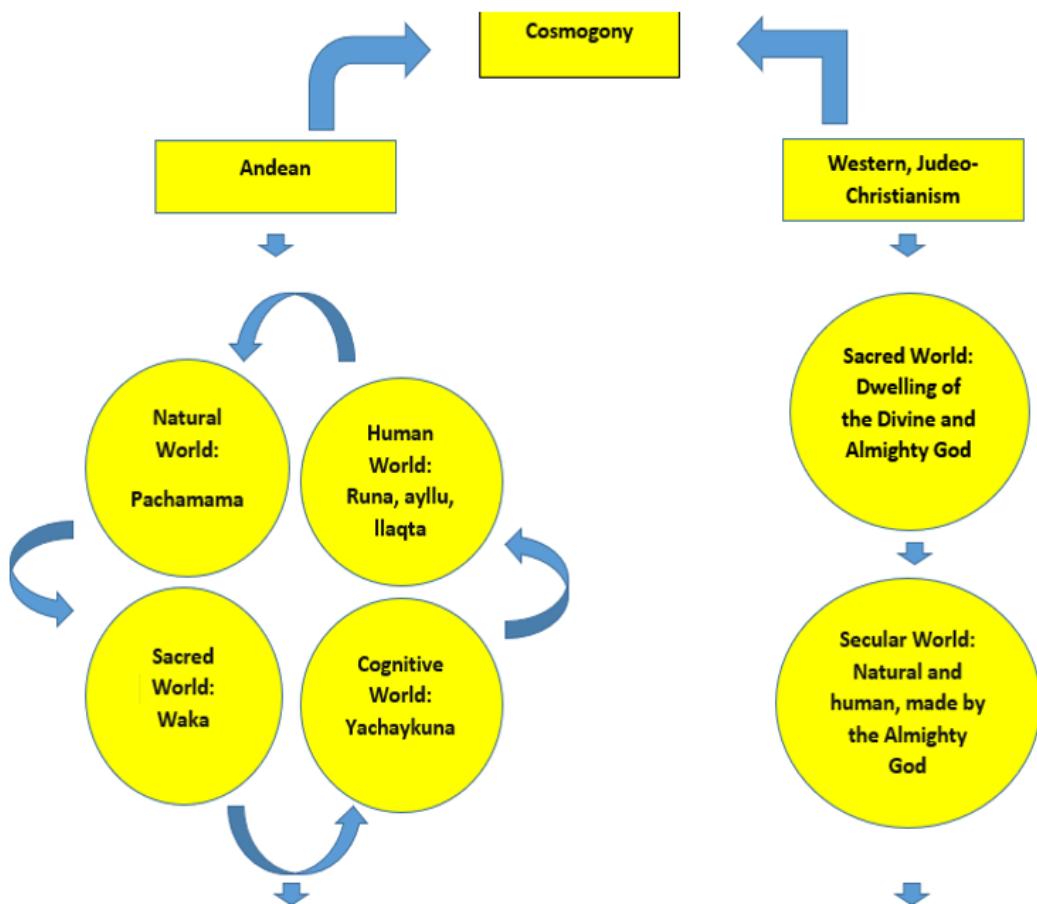
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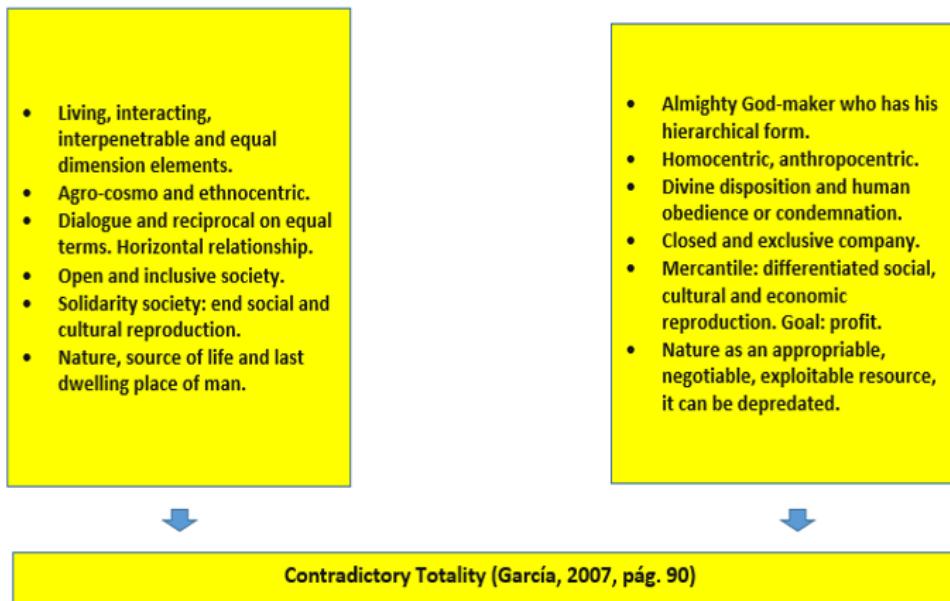
<sup>1</sup> *Ayllu*: family, kinship system, community. Depending on the characteristics of the natural and sociocultural context, it expands or restricts its meaning. For this reason, it can include from the biological family to the local neighborhood or spiritual affinity. It also encompasses the territory or country that includes soil, subsoil, rivers, lagoons, mountains and domestic upbringing as members of the *ayllu*.

harmony in a changing context, of constant modernization. The following table could establish a line between cosmology and sustainable tourism to make it easier to get:



Since every element in the Andean logic drives you to the awareness of the other and nature, it is important to keep it in mind when a project in sustainable tourism appears. As it can be seen, eastern principles come from Judaism and Christianity which let us know others as a part and not as a hole of a reality where everybody builds it up. In a Judeo-Christianity and Greco-Roman vision, the center of cosmogony is man, hence his anthropocentrism, unlike indigenous and native communities, where the worldview is structured from the man-nature identity as a collective entity and, therefore, it is agro-cosmo-ethnocentric. According to this so, the Andean *ayllu* is the center of collective life through community forms of organization and action (García, 2007, pág. 80). A structure of the two worlds and logics before us today could be useful to understand this point:





However, this permanence of the Andean culture does not imply that it has been removed from the global scene, in fact, it is inserted in it due to its ability to contextualize elements and manifestations of others, giving a dynamic character to what we have called contradictory totality. Thus, the elements that have been incorporated go through an adaptation process in which they are recreated, reinterpreted and reinvented (Sobrevilla, 2008, pág. 240). Some call this phenomenon "syncretism" and others "miscegenation", but regardless of the appropriate term to call this cultural process, the truth is that it is about incorporations that do not destroy but preserve, which explains the validity of the Andean culture.

How is it possible to talk about a world order where a sustainable tourism could be appeared? Under which conditions a sustainable tourism takes place in an Andean order? Is it possible to dream an anti-capitalism order where mankind and nature could live together? Let us see a sustainability order in a new logic.

### **Sustainability Logic for a Tourism of Life**

Everyone talks about sustainability all over the world. Most of the countries and their institutions proclaim a real change on this. A sample of this is The World Tourism Organization or UNWTO with 156 countries confederated. UNWTO is the United Nations agency in charge of promoting responsible, sustainable and universally accessible tourism.(OMT, 2020). As a reference to the topic we discuss about, sustainable tourism has objectives (Europraxis, 2007, pág. 19) as it follows:

Economic viability

Local prosperity

Job quality

Social equity  
Visitor satisfaction  
Local control  
Cultural wealth  
Physical integrity  
Biological diversity  
Efficiency in the use of resources  
Environmental purity

Besides sustainable tourism, the Millennium Development Goals (Euopraxis, 2007, pág. 19) are seen as an opportunity to achieve several macro objectives local and abroad. They are:

- 1: Eradicate extreme poverty and hunger
- 2: Achieve universal primary education
- 3: Promote gender equality and women's autonomy
- 4: Reduce child mortality
- 5: Improve maternal health
- 6: Combat HIV / AIDS, malaria and other diseases
- 7: Ensure environmental sustainability
- 8: Promote a global partnership for development

There is a remarkable aspect where objectives and Millennium Goals meet together. In fact, the objectives for a sustainable tourism fit well when you have to eradicate poverty, help women's autonomy as well as gender equality, protect environment and a global partnership promoting. Focus on this, sustainable tourism for Ecuador presents real opportunities to improve the living conditions of the entire population. First of all, it could be through the articulation of private and community businesses in value chains that directly and indirectly generate employment. On the other hand, the demand for tourist services where you can get authentic experiences becomes a great chance to be satisfied.

Challenges presented by the United Nations World Tourism Organization or (UNWTO) to fight against poverty through tourism are:

1. Tourism promotion as an instrument for poverty reduction through a sensitization of actors in the touristic area.
2. Creative and better ways to reshape the visitor spending outcome to poor and local economies ever visited before.
3. Effectiveness of tourism pilot projects and their escalation against poverty.
4. Pilot projects promotion and their several settings widely spread.

In spite of capitalism and its perverse neoliberalism and the way they cause a great damage in the tourism area as they get accustomed to the highest benefit. Also, and according to sustainable tourism and its principles, different and attractive ways to a new approach to the phenomenon must be established now. This paper shows a way where it could be possible. This information will be obtained through qualitative analysis of data applied to the representatives of both micro and small businesses, as well as the enterprises of the popular and solidarity economy.

This will allow to identify territorial tourism systems, in order to seek synergies and empower residents through knowledge transfer or specialized training in tourism-related techniques, such as: lodging, food and beverage, customer service, entrepreneurship, financing, etc. taking advantage of the potential of existing natural, landscape and public resources (CEDIA, 2020, pág. 5).

A sustainable tourism, in this proposal should look like Yasuní-ITT Project proposed to let in soil 846 million barrels of oil from the ITT Block in the Yasuní National Park. In exchange, from the International Community, Ecuador would receive half of what Ecuador would have generated by exploiting the reserves of oil from this place in the heart of Amazonas. Thus, Ecuador establishes goals in the creation of alternative energy sources that respect the environment and in social policies. The total to be raised was estimated at 3.6 billion dollars, half the value of the oil not extracted, in a period of 13 years. The other half would be assumed by the Ecuadorian government (Becerra, 2016, pág. 29).

The main objective of this project is to contribute to the fight against climate change and set up a change of production in the country. This unique and unprecedented initiative on the planet would prevent the emission of more than 407 million tons of carbon dioxide into the atmosphere as well. For the first time in history, a mechanism was presented that proposed avoiding CO<sub>2</sub> emissions into the atmosphere instead of reducing them, and was accompanied by one of a specific proposal to combat climate change: Yasuní-ITT Project. Finally, the Yasuní-ITT main proposal is not only to preserve a piece of the lung of our planet, but leaving the oil under the ground to set an example and make the world aware that a change in the energy matrix is necessary. (Becerra, 2016, pág. 29).

According to this model explored by Ecuador, three kinds of people could appear in a new way of sustainable tourism to economies in Latin America. Assets are those who feel and suffer with the community, that is, those who share daily events, assemblies, tasks, burials, festivities and everything that happens in the community. On the other hand, Cooperators are those who feel but do not suffer with the community, that is, those who have emigrated and from their new places of residence long for and support their people or community. Finally, Defaulters are those who do not feel or suffer with the community, that is, the uprooted who do not participate in the vicissitudes of the community, neither inside nor outside. They are the acculturated, those who have chosen to place themselves in anthropocentric positions.

In this way, assets are the people who really want a change in the economic world order and along endogamy people like tribal communities and some interested persons who are really involved in a new and contra hegemonic way of rule and taking advantage of natural resources. Cooperators are so close to assets, in this case would be millions of tourists all over the world who really want to change the world into a friendly and suitable space for living and share. Defaulters are not interested in such a big and important enterprise and they are allies

of nature destruction as well as capitalism rule for every human transaction with other humans as well as nature. Extractivism is an incarnation of a model imposed in Latin America, which essentially maintains a pattern which consists in providing natural resources to satisfy the demands of both the industrialized economies of the North as well as those which are in full growth like China (Chicaiza, 2012, pág. 130).

Following a holistic point of view where Andean logic get into an economic and political sustainable tourism would change upwards the present order. Pachasophia give us a guide to consider both sustainable tourism and economy. Be part of a world where everything is part of everything, a relation of all with all make compatible tourism with nature as well as economy in service of both. Since economic principles take advantage of nature, a new economy can open advantages of sustainable tourism where every gain let them free.

Ways to do it are innovative and rare but a real “new normality” after Covid-19 make it possible if we really want it. This project longs to reach this goal and show a way to do it. All the time reports are declaring the same because political will is engage with a devastating economy that is looking for selfish accomplishments and the highest benefits. This is part of it in a world where sustainability is destined to utopist:

.... Some of these breaches were: that the environmental authority did not verify or require the holder of the concessions, the expansionary environmental impact studies in accordance with current legislation; that the annual programs and budgets were not required, thus limiting the control and monitoring action; nor was it verified that the compliance audit is comprehensive, and that the programs of the Environmental Management Plan are detailed; and finally, that the competent ministries did not develop actions to implement prior, free, and informed consultation processes for the indigenous communities, peoples, and nationalities of the area of influence, in order to obtain their consent for the development of extractive activities. (Chicaiza, 2012, págs. 129-130).

Extractivism, on the root of a neoliberalism that accomplishes goals wherever it can manipulate income out of capitalism strategies works under the following principles:

The territorial reordering based on the commodification of the territories and their integration to the dynamics of financial accumulation of global capitalism

The transfer of macroeconomic decisions to foreign direct investment and investors (especially economic growth, investment and employment).

The geopolitics that integrates extractivism into the new processes of struggle for world hegemony, where the processes of concentration and centralization of capital on a world scale have intensified.

Regulatory convergence towards the definitions of the World Trade Organization (WTO), free trade agreements and the conformation of the investor and foreign direct investment as new subjects of contractuality structured under the rule of law.

Social control and discipline, especially due to conditional cash transfers and the use of social fiscal spending as a political legitimizer.

The integration of territorial infrastructures based on the accumulation of capital and the formation of new power blocks.

The new institutional architecture for regional political integration that alters the blocks of world power (BRICS, UNASUR, BNDES).

Violence, social criminalization and the "heuristic use of fear" as a mechanism for political domination, and the resolution of conflicts across the territories and the control of society by paramilitaries, drug trafficking mafias and terrorism.

Hegemonic and authoritarian political systems supported by election mechanisms.

The epistemological colonization in which universities converge towards market mechanisms (Bologna reforms) and articulate forms of knowledge-power inherent in the accumulation of capital (Verónica Albuja y Pablo Dávalos, 2013 , págs. 84-85).

### **Coming to a Commitment Where a Sustainable Tourism Plan Could Be Joined to An Economic Principle of Responsibility**

Tourism could not longer be part of an industry linked to capitalism. Those called "environmental services" are not only privatization of water, carbon markets, the tourism industry, paying for environmental services, biotechnology; geotechnology, biofuels, among others (Verónica Albuja y Pablo Dávalos, 2013 , pág. 83). If ecotourism can become a new economic alternative and a complement to extractive activities with all benefits, conflicts and tensions for indigenous groups, it is not desirable in a context where capitalism has exploited everything (Azevedo, 2007, pág. 198).

Here comes a main principle in the sustainable tourism: "There is no way to conceive ecotourism as a market made up for a group of consumers willing to pay the high prices to satisfy their desire to appreciate wildlife and perhaps experience other cultures, customs and traditions and meet indigenous peoples following the example of indigenous societies" (Azevedo, 2007, pág. 197). Following this perspective, ecotourism initiatives must be prepared with financial, human, marketing, and especially transportation and logistics appropriate resources, in order to achieve the expectations of ecotourists.

Some of the experiences where capitalism takes place over ecotourism ideas and platforms are not good enough to the people they trust in. Those people, especially indigenous ones were able to establish higher levels of control of their territories, in spite of the pressures of the logging, mining, oil and specifically tourism developed by private ecotourism operators. As a matter of fact, they only use indigenous lands and natural resources to take advantage of them as cheap labor in the worst jobs, without bringing them social, cultural and ethnic benefits (Azevedo, 2007, pág. 195). There is no way to talk about sustainable tourism where it is offered as a market -based solutions for sustainable tourism that preserve invaluable social and environmental capital for the well-being of local people around the world as EplerWood International (EWI) declared (Epler, 2020).

EWI provides innovative systems for companies, NGOs and governments to build competitive resource-efficient economies that benefit all members of society. They also provide market research, business plans, financial and investment plans, and other economic and social entrepreneurship tools to help countries or destinations develop the capacity they need to professionally deliver sustainable ecotourism. Finally, initiatives like this oversees the development of sustainable tourism as a tool to economically benefit underserved rural

populations and as a means to support the conservation of protected areas and biodiversity (Epler, 2020).

From the perspective that collective initiatives are not viable from the market point of view and in order for them to obtain satisfactory results by generating income through the constant tourist flow, experiences, under any model of operation and support, need to have the following requirements: the sale of quality and differentiated products, facilitating access to all essential information to visitors such as the nature of the offer, location, type of transport, degree of logistics, prices, guide services regional and bilingual. Furthermore, the absence of technical support and training through agreements with local governments are challenges for the effectiveness of such a competitive market, mainly in the Ecuadorian Amazon.

Market and community failures have occurred in general terms due to the absence of investments for the training of indigenous groups so that they can have the necessary skills to enter a market that is very different from their subsistence economy, their way of life, symbols and worldview of the world. Here, the productive chains could be promoted so that the projects do not use their profits in the importation of food, in this way, the costs will decrease and the economic benefits would be greater for the whole community where the project is located (Azevedo, 2007, págs. 196-197). Those ideals could be representative to a devastated economic world that keep on urging on these topics:

Industry: advice on adventure and ecotourism operations, hotels, tour operators, cruises and transportation.

Environment: managing mainstream sustainable development and ecotourism.

Poverty alleviation: creating income-generating opportunities for the bottom one billion.

Business: development of micro and medium-sized companies in local economies.

Government: advice on regional and national planning of tourism development, growth and policies.

## **Conclusions**

As Ecuador and the Andean countries contemplates and navigates through the growing pains associated with any transition from social invisibility nation to a peaceful claim to their ancient cultural rights and find a place with prosperous rights in economics, education and culture, that lets build a new ways of development and could be Andean tourism with its own cultural, economic, and philosophical identity of Latin American indigenous peoples.

Educational training programs, and education more broadly, can help produce a populace with enhanced skills and abilities to support local, regional and national development strategies as well as to promote democratic values, attitudes and behaviors. It is compelling to argue that both phenomena, increasing education and promotion of democratic ideals, are desirable outcomes for an indigenous society struggling to transform itself and to emerge successfully from its forgotten era transition.

In a forgotten society, the reestablishment and consolidation of democratic values, attitudes and behavior—indeed democratic institutions themselves—are paramount. However, democratic institutions alone are not sufficient to guarantee majority rule with respect for minority rights and democratic stability. It is the values and norms to which the citizens

adhere that provide the ultimate guarantee. This means a willingness to tolerate the rights of those who disagree with the majority and hold opposing views. In the absence of such tolerance, democratic stability will be weak at best.

Therefore, in addition to support for democratic institutions, there must be ample public support for political tolerance, and elite and powerful groups must demonstrate tolerance towards the opposition and other minorities for a stable democracy to flourish.

Another key component to any notion of democracy and a fundamental building block of democratic theory is the centrality of participation to the democratic process. Education and training programs can foster, encourage and support indigenous community and political social organizations to build a real multicultural state.

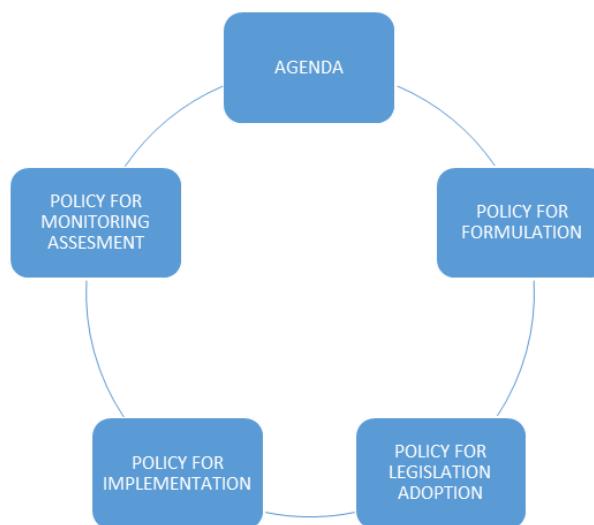
Participation in these training programs and organizations often stimulates innovation and promotion in defense of democratic processes and institutions built upon the notions of trust and reciprocity. It is important to support an alternatives approaches of economic development as both an end in itself and because it is a critical element in promoting sustainable development. This objective is facilitated through the establishment of democratic institutions, free and open markets and an informed and educated populace.

In Ecuador and most of the countries in the Andes, still a restricted political participation by a multitude of factors. Not all citizens have equal access to the political process. Factors affecting access include distance from voting stations, fear of government retaliation, fraud, limit participation and in many cases limitations placed on indigenous and peasant women who are faced with competing obligations in the rural and urban sector, restrictions placed on peasants and indigenous who cannot afford to leave the source of their livelihood, etc. Education has proven to be a powerful predictor of political participation. Specifically, those who have a higher level of education tend to participate more.

## **Recommendations**

Greater and high quality of education for communities of indigenous and peasants definitely equips citizens with the intellectual tools to be able to link their economic, political, social and cultural interests with their behavior in defense of the millenarian natural resources, but, perhaps more importantly, it gives them community respect so that when they participate they will be taken seriously by their peers. Education is directly related to income and those with higher incomes have more free time to participate and find it easier to obtain the resources to participate.

Therefore, future studies that examine the role of the indigenous communities and Peasants in local, regional and national economic development strategies in society may do well to include a more extensive analysis of the critical roles that increased educational and training programs can have on the institutionalization and consolidation of democratic stability and processes of a new way of economic development based on a cultural tourism for the Andes.



Political process to make a project into reality. Source: Self-made

The visibility for a political project immersed in social interests and sustainable tourism must be directed through a strong platform for decisions. For this reason, it is considered a relevant organization in the region as the Andean Nations Community (ANC). As it could be inferred from the graphic, an agenda is required to bring about a necessity in order to formulate a first policy in charge of contemplate and analyze reality. This is driven to a formal legislation to create a law and public policies for the Andes countries, integrated as a one community to be implemented in real life and make improvements for its members, and can be determined a new way of social structure with a given order. Furthermore, the whole process is monitoring through a permanent evaluation to check the integrated community of countries and to check the progress and correct procedures.

An example could be given to illustrate the process. An agenda could determine the lack of promoting tourism in the Andes through the governments and its diplomacy services it can be the link between tourism of the Andes and internationals relation of Colombia, Ecuador, Peru and Bolivia. The configuration of the respective proposal must be written and supported by theoretical and technical criteria. Once a project is discussed and considered by specialists, it goes to be presented and approved by authorities in charge of legislation on this matter. They could declare it as a law to be considered and widely diffused among citizens in order to apply its contents in the problematic area. Moreover, it is strictly revise periodically to improve eventualities.

According to this insight of the political procedure to get a relevant social product, the neglect of the governments regarding the regulation that drives and supports this historically undervalued tourism sector could be come to its end. The participation in social projects and laws that strengthen a sustainable tourism community could be leaded by the ANC in the region and every nation belonging to it. No more delays, no more particular initiatives, no intermediaries but several proposals from diverse points of view of the ecotourism and its real participants in the field.

Besides, educational new perspectives would be spring out to empowering indigenous communities and peasant people. They will be able to create formational spaces by regular institutions as universities or colleges or be qualified in different areas in order to fulfill old and empty spaces to grow in leadership and local protagonism. Ways to do it are innovative and they compelled to call a “new normality” in order to make it possible if we really want it.

That's why this project longs to reach this goal and show a way to a new order with an Andean cosmovision as it has been declared before. Nowadays, socio-political aims are engaged with a devastating economy that only look for selfish accomplishments and the highest benefits of some power groups and their interests.

Finally, the role of the indigenous communities and peasants in local and regional has been deplored for years and it is necessary new economic and development strategies to support western civilization. Critical analysis of social and economic phenomena should be increased through these new educational and training programs by new educative institutions raised by the Andean world. Consolidation of real democratic stability and processes of a new way for economic development are required to break old premises as well as prejudices on indigenous and peasant peoples and their protagonistic role in a sustainable tourism.

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## **Household Economy in the Rural Sector of the Border Region between Ecuador and Colombia and Alternatives to Overcome Poverty**

**Jaime Rodrigo Moreno Vallejo**

**Donald E. Kerchis**

### **Abstract**

This research examines the present-day reality in the rural area on the border between Ecuador and Colombia, focusing on the current situation of the rural women; this study looks at the process of self-awareness, validation and empowerment of these women in this border region. As a consequence, the fundamental objective is to analyze and evaluate the participation and empowerment of rural women and to identify their contribution to alleviate the worst conditions of poverty. This study also examines the ability of these rural women to influence the public policy process and to improve gender equity and quality of life. Rural women are confronted with a wide array of economic, social, political and cultural challenges. These women lack stable employment opportunities; their incomes are variable and depend on a livelihood based upon agriculture and livestock. Their common characteristics include low educational attainment level, gender disparities, relatively higher unemployment rate, exclusion from decision-making circles, lack of opportunity, lack of institutional support, sexism, androcentric domination, inappropriate workplace behavior and domestic violence; All extremely unfortunate outcomes that both derive from and are exacerbated by low income levels and increasing levels of poverty among this rural population.

**Keywords:** Public Policies, Poverty, Household Agriculture, and Public Partnerships.

### **INTRODUCTION**

The problems confronted by rural women are diverse, at the economic, social, and cultural levels. At the economic level they do not have stable employment opportunities; their incomes are variable since they depend on agricultural and livestock work. They have lower levels of education. They are confronted by gender inequality, unemployment, and exclusion in decision-making, lack of opportunities, and lack of institutional support. They live in an androcentric culture in which they work largely in the informal sector and are faced with domestic abuse and violence. All of which tend to exacerbate the primary problem, that of extremely low levels of income of the rural population.

The central concern of this research is the following: Does the participation and empowerment of rural women contribute to alleviating their high levels of poverty and contribute to the design of public policies that improve their standards of living and quality of life? As an investigative hypothesis, it is proposed that their participation and empowerment contribute to improving and overcoming conditions of poverty among rural women.

The general objective is to analyze the participation and empowerment of rural women and their contribution to reduce poverty and design public policies that improve gender equity. More specific objectives include Identifying the factors that strengthen or hinder the participation and empowerment of rural women in a municipality **on** the border of Ecuador and Colombia; Analyzing the strategies that allow for the reduction of poverty conditions among rural women in the border region and identifying the contribution of public policies in reducing poverty conditions of rural women in the municipality.

## 1. BACKGROUND

In order to advance the current research, a literature review was undertaken on public policies that benefit rural women and the rural sector, as well as the different thematic fields that this research addresses. This allowed us to understand and identify the successes and failures in the field of policy formulation that, despite good intentions, had little impact on the quality of life of the rural population. In Ecuador and Colombia, public policies have been formulated with the purpose of benefiting rural women; however, monitoring of their implementation has not been carried out, nor has there been an adequate evaluation of their effectiveness with regard to their improvement on quality of life.

It is understood that living in a rural environment contains elements of territorial and geographical isolation compared to a more urban and cosmopolitan environment. It is a space that possesses a natural wealth; environmental and cultural resources, particular ecosystems, and various forms of production. Where social relations are intertwined with particular cultural views; these elements give it a specific particularity. It is constituted in a complex system where the different dimensions of social and cultural life interact and where a territorial identity is supported. It is the space where social relations are interwoven, where a social and productive organization coexists.

### 1.1. FAMILY AGRICULTURE

There are essential features that distinguish rural modes of agricultural production such as the exclusive or majority use of family labor, whether provided by one or more members of the family. In this way, rural agriculture can be more exploitative when the amount of work contributed by family members is greater and the number of family members involved in the work process is increased (Gómez and González, 1999: 28).

In the Ecuadorian and Colombian cases, family farming is recognized as a peasant economy: family agricultural units with rural producers, containing the following characteristics; low levels of education, intensive use of family labor, insecurity in health, scarce technological development, hiring of seasonal labor, especially during harvest periods. Family farming contributes significantly to the food security of peasant families; and it is a source of supply for urban environments.

In the economic activity of family farming there is diversification of crops and rotation of them, there is no planning in production to guide the crops that are planted. Failure to take market supply into account can lead to a situation that creates a decrease in the price in the market, affecting the income of the producers. Family farming knowledge is derived from agricultural practice that occurs within a specific cultural environment that relies upon traditions and customs in production and marketing. There exists an historical context that links rural women to family farming. In fact, one of the most salient characteristic elements of the

workload performed by rural women is the combination of domestic household work coupled with agricultural activity.

As Bock (2006) points out, the structure of agriculture and the reality of rural life has irrevocably changed, starting from the liberalization and globalization of markets, these changes have a direct impact on the quality of life of agrarian rural families, because with this competition and globalization has come a considerable effect on household income. The result has been both a lowering of the level of product prices in addition to an increase in production costs. Subsequently, this has forced many families in the rural areas to move to the city.

## **2. METHODOLOGICAL PROCEDURES**

Qualitative research is interested in the perspective of the subjects themselves (Millan 1974: 38). The focus of the research approach allows for a perspective from the subject's point of view. It is framed in a research model with greater focus on social change because it is based on a recognition and acknowledgement of the intrinsic value of the knowledge of the reality in which the subjects live. It is a systematic process of learning, since it implies that people carry out critical analysis of the situations in which they are immersed.

An approach was made through participant observation, sharing the circumstances, from the daily life of the social subjects, their activities, interests and preferences. Participant observation can be considered the quintessential example of capturing the nature of reality, rather than alternative techniques of qualitative research methods (Callejo, 2002).

Field visits were conducted where the life situation of rural women, their economic, cultural and social conditions, the way of life in rural areas, working conditions, productive activities and daily life were observed. An in-depth interview was conducted, like an ordinary conversation, with some particular characteristics of participant observation applied (Callejo, 2002). It is about capturing the meanings in an open dialogue that encourages conversation. The interview allows access to the universe of meanings from the perspective of the actors, not only the texts but the situations of the context from the vision and cultural approach of the same. In order to carry out the interviews, it was necessary to establish preliminary contacts, coordinate the times and agree on places, in an attempt to accurately capture the reality of the subjects, so as not to interrupt their daily lives.

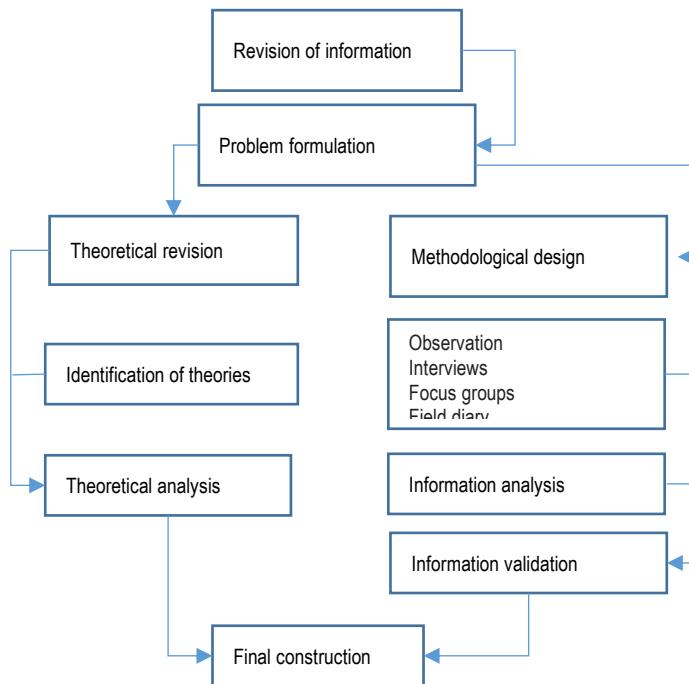
Each interview lasted approximately 3 hours, listening to their stories, their hopes and despair in a warm conversation. The women who participated belonged to organizations in the rural sector, linked to productive activities. An interview script was designed in which each one of the variables corresponding to the proposed objectives was addressed.

Discussion groups were held for their dynamism and the possibility of capturing the opinions of the interest group, a meeting with an open and semi-structured group interview, where the discussion is encouraged from personal experiences, with respect to the guiding questions posed in the research. This allows for the establishment of an open conversation, a dialogue from the perspective of rural women. The preparation for the event was arranged beforehand, the rural women of the selected areas were invited, and the logistics were prepared, including identifying the meeting site. Discussion groups for this study were based on the possibility of building and understanding, from the dialogue with the interviewees, the significance of participation and empowerment from rural women. A dialogical approach enabled the construction of the significance and meanings, through an unstructured, free, and

spontaneous, group discussion that was both facilitated and stimulated through a reflective discourse.

The duration of each group was 3 hours which allowed sufficient time to address the pertinent questions that serve as the basis for this research. The research questions were developed based upon the variables of participation and empowerment. The interviews were guided by a survey discussion script to facilitate a conversation that would yield responses to the variables being studied. The dialogues and discussions generated in the participation groups were recorded on sound tape and transcribed in magnetic writing. The coding and categorization were done by disaggregating the text, thus achieving greater description, understanding and interpretation of the categories that emerged. This, in turn, led to the reconstruction of new meanings and insights.

**Figure 1: Research design**



Source: self-made.

**Table 1. Profile of the people interviewed Profile of interviewees**

Profile of interviewees	No.	Duration	Dates
Women who participate in II-level organizations (networks).	10	3 horas	The interviews were conducted in the following

Rural women leaders	10	3 horas	periods:
Leaders of grassroots social organizations	10	3 horas	Interview women municipality of Pasto - Colombia and Tulcán - Ecuador 2017 - 2018
Women from savings fund organizations	10	3 horas	Interview women municipality of Pasto - Colombia and Tulcán - Ecuador 2017 - 2018
Total	40		Interview women municipality of Pasto - Colombia and Tulcán - Ecuador 2018 - 2019

**Source:** self-made.

**Table 2. Analysis categories**

Categories	Description	Indicators
Aspects of Participation	a. Concept about participation	Recognition of the participation of women Factors that enhance Factors that hinder
	b. Organizational forms	Organizations
Empowerment of women	a. Concept on empowerment	Recognition of empowerment Empowerment factors
Poverty conditions of rural women	a. Economic activities	Productive activities Domestic activities Labor activities
Public politics	a. Policies and rural women	Incidence of policies Benefits of public policies

Source: self-made.

### **3. CHARACTERISTICS OF THE NARINO DISTRICT COLOMBIA**

The district of Nariño is located in southwestern Colombia. The district has agricultural potential, due to its strategic geographical location, derived from its thermal terrain, there is a large number of areas inhabited by peasant farmers, which allows for both alternative family employment and as a source of income for rural women who are linked to these activities.

The rural situation is characterized by: low levels of technology of production, scarce marketing channels, low levels of income of the peasant population, and limited production in some areas due to the conditions facing the agricultural sector. Public policies do not provide protection nor opportunities to small rural producers. They are totally disconnected from the social, cultural and economic reality of the sector; likewise, no appropriate strategies are designed for the promotion and strengthening of rural condition to benefit local inhabitants.

The department has had to face a series of social and economic problems, many of these structural, such as poverty; situations of violence and armed conflict that cause displacement of the rural population to the city; generating an increase in the level of unemployment and conditions of marginality. This increasing marginalization, both social and economic in nature, is reflected in the various social indicators.

One of the most important characteristics of the economy in Nariño is related to the existence of family farming; a production system where the family participates, with the contribution of labor, for work, especially rural women, who contribute to the generation of income.

The municipality of Pasto is located in the south west of Colombia, in the middle of the Andes mountain range in the mountainous massif called Nudo de los Pastos. The city is located in the Atriz Valley at the base of the Galeras volcano, close to the border with Ecuador. There is a high fractionalization of property, small tracts of land, which is subdivided even further as the nuclear family continues to grow. Rural women play an important role in the family economy.

### **CHARACTERISTICS OF THE CARCHI DISTRICT ECUADOR**

The district of Carchi is located in the north of Ecuador, in the geographical area known as the interandes region or mountain range, mainly on the nodes of the pastures to the northeast, the Chota basin in the south and on the outer flanks of the western mountain range in the west. Its administrative capital is the city of Tulcán, which is also its largest and most populated city. Tulcán, located in the district of Carchi, is near the Colombian-Ecuadorian border, which is one of the areas most affected by the armed conflict in Colombia.

The district of Carchi has agricultural potential due to its geographical location. It is nearly identical to the south of Colombia. It is a border region in which agriculture is one of the main activities that generates resources for the inhabitants of Carchi; Among the products that are best grown are: potatoes (they generate a very important and significant percentage of the national supply of the tuber), beans, peas, corn, wheat, barley, oats; to the northwestern yucca, banana and tropical fruits. Trade from the bridge of Rumichaca, door that joins commercially and touristically Ecuador and Colombia.

Agriculture is A representative social factor and its impact on vulnerable population there are more people involve in this economic agricultural activities, the transport factor has a high

influence between Ecuador and Colombian border commerce. The presence of transnational armed groups such as the FARC's dissidents still maintains its presence in territories of the Ecuadorian-Colombian border, such as San Lorenzo and Tumaco, and this presence is conditioned by the development of relations between Ecuador and Colombia on issues of fundamental political agenda such as border security where armed and drug trafficking actions have transcended borders, increasing the insecurity and violence of this border region.

The rural situation has experienced the same as the Colombian reality: low levels of technology of production, scarce marketing channels, low levels of income of the peasant population, and limited production in some areas due to the conditions facing the agricultural sector. Public policies are focused on the central government AND there is a big center – periphery disparity in relations between Quito and Bogota and their respective border regions.

## **8. CONCLUSIONS**

### **Rural Territory**

The rural development model is shaped by the following characteristics: a) inequitable and exclusionary; due to the presence of armed groups in Colombia that leads to innumerable rural conflicts, b) failure to recognize the differences among social actors, and c) does not consider the environmental resources and potential of these rural areas. The current development approach does not allow for the generation of a model that accommodates the convergence between the rural and the urban areas.

This present situation allows for the development of: a) a relatively non-competitive rural sector, b) a land tenure system in Colombia and Ecuador that has many litigation conflicts, c) most of the properties are without formal or adequate legal documentation; the peasants do not possess legal property titles. This hinders greatly the necessary access to and involvement with public policies that might support rural areas (access to credit, etc.).

### **Public Policies**

The policies that are formulated do not consider the true daily situation of women, especially rural women, the different policies for the rural sector, nor the lack of follow-up on their implementation and impact on the poverty conditions of rural territories. No progress has been made in the construction of conditions or opportunities that allow the rural population to influence the decision-making scenarios or real participation in the formulation of public policies. The low levels of participation lead to policy proposals that are out of sync with reality and employ strategies that do not adequately address the conditions of rural women. It is required that the design of social policies for the rural sector consider the cultural, social and economic contexts, development of adequate infrastructure for the improvement of economic conditions and the overcoming of poverty. Policies should make it possible for women to acquire greater economic autonomy.

### **Rural Women**

Women report that one of their main problems is the low levels of income from economic activity, caused by the intermediation in marketing, as well as the deficient conditions in production. Rural women mention that the problems of the market of agricultural products

are related to: a) inexistence of stable prices, b) high costs of production inputs, 3) intermediaries, and d) low prices for products caused by excess supply in the local market.

However, rural women have developed mechanisms to face their situation from productive initiatives. These women have developed the ability to participate in organizational spaces, contributing to empowerment as rural women.

## **Participation and Empowerment**

It is recognized that women's participation in social organizations has advanced and that the knowledge of their interests and rights has improved. However, the ignorance and defense of their interests persists from a gender perspective. Rural women who participate in social organizations have developed mechanisms to face their situation through productive initiatives. The success of social programs and projects implemented with rural women has been propitiated by the strengthening of social capital. Social capital can be understood as the ability of social organizations to act collectively in common development purposes. Rural women through associativity have managed to improve their income levels, carry out collective actions and learn to work together; linked in network, they have been trained and have acquired skills and competences for entrepreneurship.

The active participation of rural women generates social empowerment and participation. These are factors that enhance the experiences of rural development allowing the inclusion of rural women in the improvement of living conditions. The reinforcement of autonomy and self-esteem are closely linked with social empowerment. Women have found that if they work together, in groups or networks, they gain access to the goods and services they need to expand their opportunities.

## **9. RECOMMENDATIONS**

### **Strengthen research on rural development**

In the dynamics of research, and especially the sense of education, it is necessary to bring the professional, the student, and the volunteer together to build science and promote development with the farmer. Whoever manages to understand this dynamic will be able to identify the needs inherent to the field and thus could intervene to improve the quality of life.

### **Strengthen empowerment and promote the participation of rural women**

Promotion of community participation in the structuring and implementation of social programs and projects in the territories is a fundamental element to generate economic, social and cultural sustainability. Strategies should be implemented that allow the empowerment of rural populations, so that they become agents of their own development.

### **Formulation of public policies with a gender focus**

Monitoring of public policies aimed at women requires that there be an effective political will. Political will implies not only carrying out programs and projects that have them as a target group but also applying a gender approach. The analysis of public policies must recognize the current situation of women and both allow and encourage them to participate in their design and implementation. This makes possible a) a rapprochement between the objective of the policy and its practical achievements, b) a comparison of the formulation in accordance with

reality, and c) an ability to analyze how they affect the social, economic, cultural, and environmental or political issues that gave rise to said policies with a gender focus.

### **Generation of skills and abilities in rural women**

It is critical to search for and identify the mechanisms by which training generates skills and abilities in rural populations so that they manage their development in a sustainable manner and can access services. It is necessary for the local institutions to continue to foster development of skills and abilities in the rural population. Training programs should include creation of an information system that allows for an appropriate follow-up to the different social policies supported by public and private entities. It is critical to both measure and monitor the changes in the quality of life of rural women. It is necessary to strengthen skills and abilities in women entrepreneurship and allow rural women to advance business and economic developments in rural areas. This includes strengthening of agro-industry for the generation of added value and promoting the articulation of organizations around productive economic development.

### **An agrarian reform that contemplates the gender perspective**

It is fundamentally important to consider rethinking and proposing an agrarian reform with a gender perspective for Ecuador, Colombia and Latin America that focuses on women. An agrarian reform with a gender perspective that includes social justice and equity will contribute to build political stability, improve productive activity in rural areas, and help enormously to provide sustainable economic development.

### **Inter-institutional articulation to promote development**

Articulation of local and regional actors to promote economic development with a gender perspective is essential. If public and private entities continue in a disarticulated work with regard to development, it will not be possible to achieve successful transformations. It is necessary to design programs with articulated inter-institutional actions to support women and aid the transformation and alleviation of poverty conditions of rural women.

### **Financing programs for the rural sector**

One of the problems of the rural sector is the difficult access to financing by small producers, due to the low capacity to manage and share irrigation, and the lack of special lines of credit that adjust to the differentiated conditions of their agricultural activity. This makes it extremely difficult to market their commerce and to generate added value to the production of small producers. This problem is exacerbated by the absence of infrastructure for storage and transportation as well as organization and associativity of producers to minimize intermediation.

### **Strengthening the Urban - Rural Focus**

Food security in urban areas depends directly on rural areas, from which the city is supplied; it is considered in the same way that the water supply depends on the natural resources of the rural areas. The rural cannot continue to be considered as an isolated and disconnected territory of the urban, marginalized, with little development. On the contrary, rural areas should be seen as a territory that has economic, social, cultural and environmental potential

that can help to promote a comprehensive policy that understands rural dynamics and articulates urban development projection.

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## **Government Expenditures and Economic Growth: a Nonlinear Causality Investigation for the UK**

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### **Abstract**

This study aims to explore the causal relationship between government expenditures and economic growth in the UK. The analysis emphasizes on the nonlinearity facet of the explored causality. In this aspect, existing conditional heteroscedasticity as a potential source of bias, is filtered out with the use of the nonparametric Diks and Panchenko causality test. The UK government expenditures are disaggregated into total managed expenditure (TGE), current expenditure (CGE) and net investment (IGE), in order to account for a possible heterogeneity in a causality disclosure linked to the nature of expenditures. The findings support that UK government spending Granger causes nonlinearly UK economic growth. Overall, government spending at all three levels of disaggregation is documented to influence the economic growth in the UK. In this aspect, the results move along with the endogenous growth literature. However, in a policy making framework, the disclosed nonlinearity patterns stress the high risk involved whenever economic growth is pursued restrictively via public spending policies overlooking other important elements of the economic life (e.g. market structure, macroeconomic environment, etc.). Additionally, the exhibited nonlinearity in the examined causality could be regarded as a likely cause of the widespread diversification of the findings in the field empirical literature.

**Keywords:** Nonlinear causality, Economic growth, Government expenditures, UK

### **1. Introduction**

Government expenditures can contribute to a country's economic output both positively and negatively. Apparently, as the advocates of the Leviathan public choice school support, a large public sector by providing a reasonable amount of public goods and services (e.g. infrastructure projects, health, education, social security, welfare, defence services, etc.) a government can boost economic growth and influence positively the productivity in the private sector. However, a large public sector financed by taxes or external borrowing can result in a disproportionate size of governmental interventions in the economic life via

overpriced public goods and services, often coupled with 'unproductive' or even rent-seeking, activities that finally undermine the envisaged economic growth prospects.

Undoubtedly, during the last decades, the appropriate size of public sector which would optimally stimulate a country's economic growth has become the research subject for numerous studies. The relationship between government spending and economic growth constituted a favourite topic of discussion in both neoclassical and endogenous growth theories. In the empirical literature, discussing the government spending-economic growth relationship, Grossman (1988) is the first who introduces the feature of nonlinearity. In endogenous growth theory, a distinguished model discussing the nonlinearity aspect of the above relationship is that of Barro (1990). The model presents a theoretical concave, static relationship between the economic growth rate and the size of a government. The later with the form of the ratio of productive government expenditures to GNP has been modified in an economic growth optimization process. In the same line, the so-called Rahn Curve<sup>1</sup> quantifies the optimal level in government spending but avoids disaggregating it according to the type of public activities. Also, Scully (1998, 2003) extends the theoretical Barro model (1990) revealing a trade-off between economic growth and income inequality.

In this study, the  $H_0$  hypothesis is whether public spending - in the form of total managed government expenditure, current public expenditure and public net investment - Granger causes UK economic growth in a nonlinear way during the period 1955-2009. The study offers empirical findings that underscore the feature of nonlinearity that was initially introduced in the long-run relationships of the Grossman (1988) and Barro (1990) studies. An innovative feature lies in use of the Diks and Panchenko (2006) test-instead of the frequently used Hiemstra-Jones (1993, 1994) test<sup>2</sup>- in order to account for the false nonlinearity due to the existing heteroskedasticity.

The paper is organised as follows: Section 2, sets the theoretical framework for the nonlinear relationship. Section 3, presents the nonparametric Diks and Panchenko causality test. Section 4, describes the data and the empirical results, and section 5 concludes.

## 2. Theoretical framework

According to the neoclassical theory of economic growth, taxes only temporally influence the growth rate of income in the transition to successive equilibrium growth paths, whereas, technological progress and population dynamics are exogenous forces that can lead to a steady-state equilibrium growth. On the contrary, the endogenous growth theory accepts that a steady-state growth is determined by the agents of the economy. Consequently, taxes are assumed to influence permanently the steady-state growth, by affecting parameters such as the value of investments in R&D and the rate of return on capital accumulation.

In very broad lines, the studies around the government expenditure-economic growth nexus could be grouped into the following categories according to their findings: a) in studies concluding on mixed or arriving to inconclusive results on the sign and size of this relationship (e.g. Nelson and Singh 1994; Agell *et al.* 1997; Ansari *et al.* 1997; Al-Faris 2002; Kollias and Paleologou 2010<sup>3</sup>; Germmell and Au 2013; Afonso and Jalles 2014, etc.), b) in studies that

<sup>1</sup> See Brimelow (1993).

<sup>2</sup> The Hiemstra-Jones (1993, 1994) test is a modified version of the Baek and Brock (1992) test.

<sup>3</sup> Kollias and Paleologou (2010) investigate the relationship between growth, investment and military expenditure.

conclude on a negative relationship (e.g. Barro 1991; Engen and Skinner 1992; Guseh 1997; Burton 1999; Fölster and Henrekson 2001; Lee and Gordon 2005; Yavas 1998, Bergh and Henrekson 2011, etc.), c) in studies that conclude on a positive relationship (Aschauer 1990; Kelly 1997; Blanchard and Perotti 2002; Colombier 2009, Pereira and Roca-Sagale's 2011, etc.) and, d) in studies concluding in a inverted U shaped relationship (e.g. Barro 1990; Armey and Armey 1995; Rahn and Fox 1996; Scully 2003, Carboni and Medda 2011, etc.).

In this paper, additionally to other discussed causes<sup>1</sup>, we illustrate also the predominant facet of nonlinearity as a plausible cause of the findings' diversification and controversy among the field studies. Specifically, we investigate the nonlinear relationship between public spending and economic growth using a new nonlinear Granger causality model in order to account for the likely mixed positive and negative growth effects in the UK economy. Nonlinear causality refers to the disproportional effect between government spending and economic growth. This disproportionality is related to the stand of fiscal policy (e.g. expansionary or restrictive fiscal policy) and the asymmetric shifts in economic policy regimes over time. Additionally, the need to uncover nonlinear dependencies is highlighted by the fact that even in cases when a linear Granger causality is witnessed, nonlinear dynamic dependences can not be necessarily excluded (see Kyrtsov and Labys 2006).

The study's empirical findings suggest that public spending affects economic growth in a nonlinear way. Thus, the causality effect, though strong and clear, is non-proportional and uncontrollable as to the sign and the magnitude. Possible reasons might be looked for in the nature of expenditures, the current level of GDP, political reasons (e.g. elections, shifts in economic policy) etc. Recalling Agell et al. (1997): '*what we somewhat carelessly refer to as the public sector is in fact a microcosm, which includes everything from the choice of tax bases and setting of tax rates to decisions concerning public consumption programs and social insurance compensation levels*'. In the same strand, Myles (2000) concludes that, government spending may just be a proxy for the entire set of government non-price interventions, including, for instance, employment, legislation, health and safety rules and product standards and it may be these, instead of the expenditure, that actually reduce growth.

In general terms, our findings move along with the claims of the endogenous growth theorists in that public expenditure affects economic growth in a nonlinear and permanent way. Whereas no assumptions can be made on the sign of the effects, the study findings could be seen as highlighting the risk involved in the policy practices targeting economic growth via expansionary public spending and a Leviathan public sector. Similarly however, there is a high risk for disproportional economic growth effects when a restrictive public policy is enforced under the light of budgetary constraints. Subsequently, it expands the relevant empirical literature by uncovering the complex, dynamic nature of the public spending-economic growth relationship. From a policy making perspective, the presence of a nonlinear Granger causal flow renders policy makers unable to forecast the exact size and the direction in an economic growth change caused by public spending changes or reallocation. Summing up, public spending, despite its definite growth determinant role, could be modified (increased,

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<sup>1</sup> In the field empirical literature there exists a large spectrum of arbitrage and controversy in the decisions touching upon the selection of: the appropriate level of public data series (dis)aggregation and heterogeneity (e.g. according to the category of expenses, the level of economic development of the examined economies, etc.), the time span considered (e.g. short run shocks vs. long run effects, etc.), the selection of the appropriate exogenous variables for the modelling process (e.g. expenditures vs. taxes, etc), the selection of appropriate modelling process (e.g. Time series vs. panel models, etc.), etc.

decreased or reallocated into the various public activities) with caution and only after controlling for a wider set of policy measures (e.g. tax law enforcement power, corruption, minimization of rent seeking activities, penetration of Information Technology, incentivisation of the private-sector investments, etc).

### 3. The nonparametric Diks and Panchenko causality test

In 1969, Granger proposed a causality test to describe the dependence relations between economic time series. According to this, if two variables - gross domestic product  $\{GDP_t\}$  and government expenditures  $\{GE_t\}$ , where  $t \geq 1$  - are strictly stationary,  $\{GE_t\}$  Granger causes  $\{GDP_t\}$  if past and/or current values of  $GDP$  contain additional information on future values of  $GE$ . Suppose  $F_{GDP,t}$  and  $F_{GE,t}$  denote the information sets consisting of past observations of  $GDP_t$  and  $GE_t$  for time  $t$ .  $\{GE_t\}$  Granger causes  $\{GDP_t\}$ , if:

$$(GE_{t+1}, \dots, GE_{t+k}) | (F_{GDP,t}, F_{GE,t}) \quad (GE_{t+1}, \dots, GE_{t+k}) | F_{GE,t} \not\sim (1)$$

where ' $\sim$ ' denotes equivalence in distribution and  $k \geq 1$ . However, in practice  $k = 1$  is more oftenly used. In this case, Granger non-causality can be tested by comparing the one-step-ahead conditional distribution of  $\{GE_t\}$  with and without past and current observed values of  $\{GDP_t\}$ . In order to test for Granger causality, we consider a bivariate stationary time series model with a mean  $E(GE_{t+1}|(F_{GDP,t}, F_{GE,t}))$ . We compare the residuals of a fitted autoregressive model of  $GE_t$  with those obtained by the regression of  $GE_t$  on past values of  $\{GDP_t\}$  and  $\{GE_t\}$  (Granger 1969). The test statistic is:

$$T_n(\varepsilon_n) = \frac{n-1}{n(n-2)} \sum_i (\hat{f}_{GDP,Z,GE}(GDP_i, Z_i, GE_i) \hat{f}_{GE}(GE_i) - \hat{f}_{GDP,GE}(GDP_i, GE_i) \hat{f}_{GE,Z}(GE_i, Z_i)) \quad (2)$$

(2)

where  $Z_i = GE_{i+1}, f_{GDP,Z,GE}(gdp, z, ge)$  the joint probability density function,  $\varepsilon_n$  the bandwidth and  $n$  the sample size<sup>1</sup>.

For  $l_X = l_Y = 1$  and if  $\varepsilon_n = Cn^{-\beta}$  ( $C > 0, \frac{1}{4} < \beta < \frac{1}{3}$ ), Diks and Panchenko (2006) prove that the test statistic in equation (2) satisfies the following:

$$\sqrt{n} \frac{(T_n(\varepsilon_n) - q)}{S_n} \xrightarrow{D} N(0,1) \quad (3)$$

where  $\xrightarrow{D}$  denotes convergence in distribution and  $S_n$  is an estimator of the asymptotic variance of  $T_n(\cdot)$  (Diks and Panchenko 2006 and Bekiros and Diks 2008). In this study, following the Diks and Panchenko's suggestion, we implement a one-tailed version of the test.

## 4. Data and Empirical results

### 4.1 Data and Preliminary Analysis

The study is carried out using quarterly data covering the time period 1955:1 to 2009:1 for the UK. GDP stands for the gross domestic product, TGE for the total managed expenditure of

<sup>1</sup> The bandwidth  $\varepsilon_n$  values are set according to table 1, p. 1658, from the Diks and Panchenko (2006) paper. For  $100 < n < 500 \Rightarrow \varepsilon_n = 1.5$

government, CGE for the public sector current expenditure and IGE for the public sector net investment. The disaggregation of total government expenditures is crucial for the appropriate isolation of the source of a likely nonlinear causal relationship. The distinction of government expenditures into public sector current expenditure and public sector net investment, serves to decomposing the likely uneven nonlinear growth causality effects. Similarly other studies in this field, e.g. Angelopoulos *et al.* (2007) which built upon Barro (1990) and Baier and Glomm (2001) have accounted for the uneven growth effects of public expenditure by distinguishing them to "productive" and "non-productive", following the Kneller *et al.* (1999) classification. Additionally, Angelopoulos *et al.* (2007) suggested that OECD countries could improve their growth performance by reallocating public spending towards productive activities.

Presumably, each category of government expenditures displays unequal increases than others and contributes in a different way to economic growth. Hence a potential nonlinear flow that may be detected between government spending and economic growth could result from a specific category of government expenditures. For this reason, the analysis includes government spending both at the aggregate and the disaggregate level. All data are obtained from the Office for National Statistics Database in the UK and they are expressed in current prices<sup>1</sup> and logarithms.

The use of the Diks-Panchenko nonlinear causality test is justified by the presence of high kurtosis value<sup>2</sup>, suggesting heteroskedasticity structures in data sets (Diks and Panchenko 2006). In the first place, the unit roots have been removed to obtain stationary series (Dickey and Fuller 1979). Furthermore, any linear dependence should also be removed. For this purpose, we apply a Vector Autoregression (VAR) model and use the estimated residuals to test for nonlinear causality. If  $GE_t$  is the vector of government expenditures and  $p$  the number of lags, the VAR model is the following:

$$GE_t = \sum_{s=1}^p A_s GE_{t-s} + \varepsilon_t \quad (4)$$

where  $GE_t = [GE_{1t}, \dots, GE_{pt}]$  is the  $px1$  vector of endogenous variables ( $t=1,2,\dots, T$ ),  $A_s$  is the  $pxp$  parameter matrix and  $\varepsilon_t$  a white-noise error vector. Five lags have been used in all three cases. The results from the estimation of the VAR model reveal the significance of the VAR model coefficients<sup>3</sup>.

## 4.2 Empirical results

The nonlinear Granger causality test (Diks and Panchenko 2006) is applied on the estimated residual series of the VAR model. The test has been applied in both directions for  $L_x=L_y=1, \dots,$

<sup>1</sup> The use of current prices is incumbent in the case nonlinear causality tests are applied. This is because the transformation in constant prices could act as a filter producing distortions, especially when the underlying mechanism generating data is nonlinear.

<sup>2</sup> Because of space considerations, detailed tables are available from the authors upon request.

<sup>3</sup> *ibid.*

<sup>51</sup> and for bandwidth  $\varepsilon=1.5$ , which has been set according to the time series length n. Table 1 shows the resulting T-statistics and p-values of the Diks-Panchenko testing.

The results obtained from the test provide clear evidence that UK government expenditure Granger causes nonlinearly UK economic growth. More specifically, the nonlinear Granger causality running from current government spending to GDP is evident with 1-2 lags, while total government spending and public investment significantly Granger causes GDP with lag orders of 1-5.

**Table 1.** Results for the NonLinear Causality Test

$L_x=L_y$	TGE → GDP		CGE → GDP		IGE → GDP	
	T-statistics	p-value	T-statistics	p-value	T-statistics	p-value
1	2.204	0.01375**	1.535	0.0624*	-3.927	0.00004***
2	2.355	0.00926***	2.641	0.00413***	-5.13	0.00000***
3	2.242	0.01248**	1.025	0.15272	-4.326	0.00001***
4	1.546	0.06105*	0.947	0.17171	-3.535	0.00020***
5	1.666	0.04783**	1.152	0.12467	-2.662	0.00388***

*Notes:* GDP stands for the Gross Domestic Product, TGE for the total managed expenditure of government, CGE for the public sector current expenditure and IGE for the public sector net investment.

The null hypothesis suggests that TGE/ CGE /IGE, respectively, does not cause GDP.

\*\*\* denotes p-value statistical significance at 1% level, \*\* denotes p-value statistical significance at 5% level, \* denotes p-value statistical significance at 10% level.

The existence of nonlinearity might be caused by several economic and political factors. UK's economic policy has been asymmetric during the period under examination, inducing changes in fiscal policy parameters, particularly government spending and taxation. The shifts in fiscal policy – for example, towards a more restrictive regime in the early '80s - appear as a response to the unfavourable at that time macro and micro economic environment (i.e. unemployment, potential impact of oil crisis etc.).

From the economic theory perspective, the findings are in line with the endogenous growth theory. Although they disclose the endogenous effect of fiscal tools (such as the change in government expenditures in this study) on GDP growth, they underscore, in a non-quantitatively way, the feature of fragility in the government expenditure-GDP growth causality effect. The later proves that public expenditure changes turn to be an incomplete fiscal policy tool on economic growth grounds.

<sup>1</sup>  $L_x=L_y$  denotes the number of lags on the residuals series used in the test.

Additionally, the findings uncover the short-run dimension in this relationship that departs from the static nonlinear government expenses-GDP growth models' framework (e.g. described first in Barro 1990). They highlight the risk when a government struggles to boost a country's economic growth, for example by restricting public expenses and public investments (i.e. the shift into a restrictive fiscal environment in the UK in early '80s).

As it has been pointed out in Grossman (1988), increases in government are asymmetrically related with changes in total economic output, allowing shocks in one variable to impact either positively or negatively the other. Thereby, this asymmetric relationship has been taken into account in a parametric model which by construction captures the nonlinear nature of the dependence. In economic terms, the presence of nonlinearity in the aforementioned setting is justified by the magnitude and, most importantly, the causes of the resulting negative effects due to the increased involvement in the private sector. The situation can worsen due to behavioural bias of taxpayers that undergo the effects of an increasing burden.

According to Olson (1982), the complex characteristics of the process of distributional coalitions determine the efficiency of regulation and the role of government. It is argued that rent-seeking activities are capable to act as an expanding mechanism of inefficiencies. This inherent heterogeneity, due to the presence of that various "unproductive" social groups, is accused to fuel the nonlinear effect of government spending and, thus, final inefficiency in achieving optimal output level. The observed heterogeneity also forces rises in spending, leading government to actively intervene. Grossman (1988) underlines that the dispersion of this spending into heterogeneous recipients puts in peril the efficiency of the intervention.

## 5. Conclusion

The present study aims to shed light on the government spending – economic growth causality. The distinctive feature of this study is that it employs the nonparametric Diks and Panchenko causality test to explore the nonlinearity facet of the relationship between the examined variables.

The empirical results uncover a nonlinear causal relationship between the government spending and the economic growth in the UK. The feature of nonlinearity in the causal effect, could be attributed either to economic and political factors (such as the stand and shifts in fiscal policy and specificities of the internal market structure) or to pathogenic features in public sector functioning (i.e. corruption, bureaucracy, rent seeking, low enforcement power, etc.) that could hamper the efficiency of implemented fiscal policies.

Apparently, in policy terms, the presence of a nonlinear Granger causality renders policy makers unable to forecast the exact size or even direction of the economic growth changes triggered by monotonic public spending policies.

Additionally, in empirical methodology terms, the predominant non linearity facet of the examined relationship constitutes a possible source of misspecification issues in the modelling process and a possible cause of the ample disparity of the findings in the field empirical literature.

In total, public spending definitely constitutes an exceptionally influential economic growth driver however, its reliability as a policy instrument should be regarded with duly scepticism due to the co-existence of economic growth hampering agents (e.g. low law enforcement

power, corruption, bureaucracy, rent seeking activities, disinsentivising of private investments, inefficient market structure, unfavourable macroeconomic environment, etc.), challenging its applicability and occasionally its appropriateness.

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## Strike in Portugal: Perception Differences Between Public and Private Sector Employees

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### Abstract

At a time when strikes are once again very frequent in Portugal, especially in sectors with a predominance of public management – in spite of the international recognition of the good performance of the Portuguese economy – an enquiry was developed in order to evaluate if there are differences between the perception and action of workers in the public sector and the private sector about strike. A survey conducted on *Google Drive* platform between November 28, 2017 and January 16, 2018. A total of 1071 responses were obtained. Fifteen questions were asked to obtain the respondents profile: age, sex, marital status, educational qualifications, employment status, type of organization where you work, sector, length of service in the current job, type of contract, occupation, place of residence, place of work, size of organization and place of birth. At the same time, quantitative questions were asked regarding the perception of the strike, unionism, social manifestations and the impact of strikes on the society. The questions that the study intends to answer are: 1) Do workers in public departments think and act differently from private sector workers towards strikes? 2) Do the workers question their right to strike? 3) Does the Portuguese population understand that workers in the public sector benefit from the right to strike? 4) What is the understanding of the positioning of the private sector in relation to the strike? 5) Are consecutive union-led strikes well accepted and understood by the general population? 6) Can it be verified that Portuguese workers defend some rules and limitations in the right to strike? We respond to these questions through respondents' opinions on the 15 survey questions. Based on data from the "PORDATA" platform for the year 2017, the total population in Portugal was 10,325,453 people. The active population corresponded to 5,178,300 (50.2%), of which 4,514,502 (87.2%) worked in the private sector and 663,798 (12.8%) in the public sector, representing 6.43 % of total population. Considering that the sample size (1,071 respondents) is composed of 209 public employees, (19.5% of the respondents), the authors are of the opinion that the results obtained are representative of the Portuguese population. The results indicate that: a) There are no substantial differences in the perception of the strike between civil servants and private employees; b) The majority of the respondents, defends the right to strike, but not the duty; c) Express the view that workers should not be able to use the strike in any circumstance, showing concern with the population in general; d) Understand that workers should find other alternatives to fight for their rights without causing

prejudice of the population at large; e) More than half of the respondents are of the opinion that the reasons for the strikes are not perceptible by the population. The results justify the continuation of the research on strike with the aim of finding, evaluating and considering other forms of fight in order to reduce the use of the strike and the negative impacts that it causes in the general population.

**Keywords:** strike, public sector, private sector.

## Introduction

### Introdução

Numa altura em que as greves assolam de novo Portugal, essencialmente nos setores com predominância da gestão pública, e não obstante o reconhecimento das instâncias internacionais, na boa prestação da economia Portuguesa, pretendeu-se perceber se existem diferenças na percepção e ação dos trabalhadores do setor público e do setor privado relativamente à greve.

Segundo dados da Agência Lusa, “foram realizadas ao longo do ano 2017, 216 greves, 38 das quais parciais.” Ainda segundo a Agência Lusa, “Para demonstrar o seu descontentamento, os trabalhadores realizaram também 79 manifestações e concentrações e 19 plenários com expressão pública.

Estes dados podem sempre pecar por defeito, tendo em conta a falta de dados oficiais.

(...) os trabalhadores do setor da hotelaria, restauração, cantinas, alimentação e bebidas fizeram 23 greves, uma das quais parcial, entre janeiro e dezembro, em defesa de aumentos salariais, dos direitos laborais e dos seus postos de trabalho. Estes trabalhadores fizeram ainda sete concentrações junto às empresas e aos ministérios do Trabalho e da Economia.”

Relativamente aos trabalhadores da indústria do vidro, cimento e da construção, a agência refere que foram feitas quatro greves, uma das quais parcial, e duas concentrações, por aumentos salariais.

Já no setor do comércio e serviços foram feitas 25 greves, duas das quais parciais, e sete concentrações.

Relativamente à função pública (administração central e local), indica a Lusa “(...) realizaram-se 20 greves, das quais três ao trabalho extraordinário e três parciais, concretizadas ao longo do ano pelos trabalhadores dos museus, da saúde, da educação, das autarquias, entre outros, que também protestaram em nove concentrações e vigílias. A precariedade, os salários e o horário de trabalho foram os principais motivos dos protestos dos funcionários públicos que paralisaram a nível nacional em 26 de maio.”

No ensino há a registar uma Greve nacional em novembro.

Por sua vez no setor da saúde, os enfermeiros fizeram quatro greves, uma delas de zelo, e uma concentração. Além destas a Agência Lusa salienta “(...) a greve dos enfermeiros de saúde e obstetrícia, que durou cerca de quatro meses, durante os quais estes profissionais suspenderam as suas funções de especialistas por não estarem a ser pagos como tal.” Ainda no setor da Saúde, extremamente sensível e valorizado pela população, os médicos fizeram três

greves, a primeira das quais de dois dias e os trabalhadores da saúde, da área do diagnóstico e da terapêutica, fizeram cinco greves por motivos relacionados com as carreiras. No dia 24 de novembro realizou-se uma greve geral dos trabalhadores da saúde (onde não se incluíram os médicos e enfermeiros), greve essa que levou ao cancelamento de muitos serviços previamente agendados, como cirurgias e exames de diagnóstico.

Nas Indústrias metalúrgica, gráfica, petrolífera, elevadores, elétrica e eletrónica, estaleiros navais e Autoeuropa, entre outros, foram feitas 61 greves, 13 das quais parciais. Fizeram ainda 19 manifestações e concentrações junto a empresas e junto de vários ministérios para defender postos de trabalho, aumentos salariais e direitos.

No setor têxtil foram feitas sete greves, uma das quais parcial e quatro manifestações, maioritariamente contra salários em atraso.

Nos transportes foram feitas 18 paralisações ao longo de 2017, 10 das quais parciais, e 14 manifestações em defesa do respetivo contrato coletivo de trabalho e de melhores salários.

Os trabalhadores dos correios fizeram seis greves, duas delas parciais, e quatro protestos de rua contra a falta de efetivos e a degradação do serviço prestado.

Na área das telecomunicações foram concretizadas quatro greves e 15 manifestações em defesa dos postos de trabalho.

Os trabalhadores do Sindicato dos Bancários do Sul e Ilhas e dos seus Serviços de Assistência Médico-Social fizeram duas greves e uma manifestação, em janeiro e março, pelo direito à negociação e pelo cumprimento do Acordo de empresa.

No setor das limpezas e da vigilância foram feitas sete greves, uma delas aos feriados, e nove concentrações.

Os trabalhadores do Arsenal do Alfeite fizeram uma greve em outubro e os trabalhadores do setor da defesa realizaram uma greve nacional em maio.

O pessoal de apoio da aviação civil, onde se inclui seguranças e operadores de bagagem, fez sete greves, uma delas parcial e outras ao trabalho extraordinário.

Os trabalhadores dos 'call center' (centros de atendimento) fizeram oito greves, duas delas parciais em defesa de melhores salários e contra a precariedade.

Os trabalhadores da ASAE fizeram uma greve e os polícias e guardas fizeram seis protestos de rua. Os guardas prisionais fizeram três greves, uma parcial, e uma vigília.

Os mineiros fizeram três greves, cada uma delas com vários dias.

Os estivadores paralisaram em julho e os farmacêuticos em julho e agosto.

Refere ainda a Agência Lusa que "A maior parte dos protestos realizados em 2017 foram promovidos por estruturas sindicais da CGTP. A central sindical promoveu uma única manifestação nacional, em novembro, em defesa da valorização do trabalho e dos trabalhadores, além da manifestação do 1.º de Maio, como é habitual."

Sem relevançar a componente económica para o País (facto que não devemos descurar), pois esse não é o foco do deste trabalho, entendemos que fazia sentido aprofundar e perceber o posicionamento da população Portuguesa relativamente à questão da Greve.

### **Metodologia:**

Elaboramos um questionário com dois grandes blocos: no primeiro caracterizamos os participantes, colocando 15 questões, idade, sexo, estado civil, habilitações literárias, situação face ao emprego, tipo de organização onde trabalha, setor, tempo de serviço no atual emprego, tipo de contrato, profissão, local de residência, local de trabalho, dimensão da organização e naturalidade.

No segundo bloco, foram colocadas 35 questões / afirmações, “Já participou em alguma Greve?”, “É sindicalizado/a?”, “Número de vezes que já mudou de emprego.”, “Sou a favor da Greve.”, “Os trabalhadores deveriam recorrer a outras formas de reivindicação dos seus direitos, em vez da Greve”, “A Greve é um direito de qualquer trabalhador.”, “A Greve é um dever de qualquer trabalhador.”, “A Greve tem sempre um efeito positivo nas reivindicações dos trabalhadores.”, “A Greve deveria ser permitida em qualquer circunstância, pois tem um efeito positivo na sociedade.”, “A Greve é a única forma que os trabalhadores têm de ver aceites as suas reivindicações por parte da entidade patronal.”, “As entidades patronais privadas, em Portugal, não respeitam o direito à Greve.”, “Quando uma Greve provoca graves danos no setor em que ela ocorre, os trabalhadores que a ela aderem, deveriam ser responsabilizados.”, “Seria melhor para todos, se não houvesse o direito à Greve.”, “O número de trabalhadores aderentes à Greve é equivalente ao sucesso reivindicativo da mesma.”, “Os trabalhadores do setor público são mais privilegiados do que os do setor privado, no que diz respeito ao acesso à Greve.”, “Os trabalhadores devem fazer Greve sempre que entenderem, mesmo que isso prejudique a população em geral.”, “A Greve viola o direito ao trabalho dos trabalhadores não aderentes.”, “Alguns trabalhadores aderem à Greve para serem solidários com os grevistas.”, “Alguns trabalhadores aderem à Greve com receio de serem discriminados pelos grevistas.”, “Se não houvesse sindicatos não haveria Greves.”, “Os sindicatos “manobram” os trabalhadores através da Greve.”, “Os sindicatos, quando convocam uma Greve, não são sensíveis ao impacto que a mesma provoca na sociedade.”, “Os sindicatos, quando convocam uma Greve, não são sensíveis ao impacto que a mesma provoca nas entidades patronais envolvidas.”, “A sindicalização é necessária.”, “A sindicalização deveria ser obrigatória.”, “A sindicalização produz efeitos práticos para os trabalhadores.”, “Existe uma conotação entre sindicatos e partidos políticos.”, “As manifestações “espontâneas” de rua têm retirado força aos sindicatos.”, “As manifestações populares não sindicalizadas têm mais força mobilizadora.”, “As manifestações populares não sindicalizadas são mais credíveis.”, “As Greves são manipulações dos sindicatos para atingirem objetivos políticos.”, “Os sindicatos defendem apenas os interesses dos seus membros, não se preocupando com a defesa dos trabalhadores em geral.”, “Os sindicatos são mais empenhados nas reivindicações e convocação de Greves do que como parceiros em sede de concertação social.”, “É percutível para a sociedade em geral, os motivos que levam os trabalhadores a fazer Greve.”, “O impacto de uma Greve é maior na sociedade civil do que na entidade patronal à qual ela diz respeito.”.

Nas afirmações, as respostas permitidas eram, “Concordo Plenamente”, “Concordo”, “Discordo”, “Discordo Plenamente”, “Indiferente” e “não se aplica”.

O inquérito foi disponibilizado na plataforma google drive entre o dia 28 de novembro de 2017 e o dia 16 de janeiro de 2018.

Foram obtidas 1071 respostas.

Neste trabalho pretendeu-se analisar exclusivamente **se existem diferenças na percepção da greve entre os funcionários do sector público e do sector privado.**

As questões que pretendemos responder foram:

*Será que os trabalhadores dos organismos públicos que correspondem a cerca de 12% da população ativa Portuguesa pensam e AGEM de forma diferente dos trabalhadores do setor privado relativamente à Greve?*

*Será que os trabalhadores colocam em causa o próprio direito à greve?*

*Será que a população Portuguesa entende que os trabalhadores do setor público são beneficiados no direito à greve?*

*Qual o entendimento sobre o posicionamento do setor empresarial privado relativamente à greve?*

*As consecutivas greves lideradas pelos sindicatos são bem aceites e entendidas pela população em geral?*

*Poder-se-á aferir que os trabalhadores Portugueses defendem algumas regras e limitações no direito à greve?*

Para responder à questão nº 1, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *Já participou em alguma Greve?*
- *Sou a favor da Greve*

Para responder à questão nº 2, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *A Greve é um direito de qualquer trabalhador.*
- *A Greve é um dever de qualquer trabalhador.*
- *Seria melhor para todos, se não houvesse o direito à Greve.*

Para responder à questão nº 3, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *Os trabalhadores do setor público são mais privilegiados do que os do setor privado, no que diz respeito ao acesso à Greve.*

Para responder à questão nº 4, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *As entidades patronais privadas, em Portugal, não respeitam o direito à Greve.*

Para responder à questão nº 5, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *A Greve tem sempre um efeito positivo nas reivindicações dos trabalhadores.*
- *A Greve deveria ser permitida em qualquer circunstância, pois tem um efeito positivo na sociedade.*
- *Os trabalhadores devem fazer Greve sempre que entenderem, mesmo que isso prejudique a população em geral.*
- *É percutível para a sociedade em geral, os motivos que levam os trabalhadores a fazer Greve.*
- *O impacto de uma Greve é maior na sociedade civil do que na entidade patronal à qual diz respeito.*

Finalmente para responder à questão nº 6, recolhemos da base de dados, os resultados das seguintes respostas dos inquiridos:

- *A Greve é a única forma que os trabalhadores têm de ver aceites as suas reivindicações por parte da entidade patronal.*
- *Os trabalhadores deveriam recorrer a outras formas de reivindicação dos seus direitos, em vez da Greve.*

Finalmente para sistematizar e organizar o trabalho, criamos a seguinte matriz:

## Organização trabalhos sobre o questionário "Perceção da Greve"

O inquérito foi disponibilizado através dum questionário google entre o dia 28 de Novembro de 2017 e 16 de Janeiro de 2018.  
Foram obtidas 1071 respostas

TÍTULO E QUESTÕES DE INVESTIGAÇÃO	RESPOSTAS A OBTER DO INQUERITO	OBJETIVOS DA INVESTIGAÇÃO	CORPUS DE DADOS	TIPO DE ANÁLISE	OBSERVAÇÕES, EXPECTATIVAS E QUESTÕES SUBSIDIÁRIAS	INVESTIGADOR PRINCIPAL
A Greve em Portugal - Diferenças de percepção entre funcionários públicos e privados	1 Já participou em alguma Greve?				1 ---- Será que os trabalhadores dos organismos públicos que correspondem a cerca de 12% da população ativa Portuguesa pensam e AGEM de forma diferente dos trabalhadores do setor privado relativamente à Greve?	Diamantino Ribeiro             Eva Costa
	1 Sou a favor da Greve	Perceber se existem diferenças na percepção e na relativamente à greve entre os trabalhadores que exercem funções nos organismos do Estado e em empresas privadas	Inquérito disponibilizado na plataforma Google Drive	Análise quantitativa	2 ---- Será que os trabalhadores colocam em causa o próprio direito à greve?	
	2 A Greve é um direito de qualquer trabalhador				3 ---- Os trabalhadores do setor público acham que são beneficiados no direito à greve?	
	2 Seria melhor para todos, se não houvesse o direito à Greve				4 ---- Qual o entendimento sobre o posicionamento do setor empresarial privado relativamente à greve?	
	3 Os trabalhadores do setor público são mais privilegiados do que os do setor privado, no que diz respeito ao acesso à Greve				5 ---- As consecutivas greves lideradas pelos sindicatos são bem aceites e entendidas pela população em geral?	
	4 As entidades patronais privadas, em Portugal, não respeitam o direito à Greve					
	5 A Greve tem sempre um efeito positivo nas reivindicações dos trabalhadores					
	5 A Greve deveria ser permitida em qualquer circunstância, pois tem um efeito positivo na sociedade					
	5 Os trabalhadores devem fazer Greve sempre que entenderem, mesmo que isso prejudique a população em geral					
	5 É perceptível para a sociedade em geral, os motivos que levam os trabalhadores a fazer Greve					
	5 O impacto de uma Greve é maior na sociedade civil do que na entidade patronal à qual ela diz respeito					
	6 A Greve é a única forma que os trabalhadores têm de ver aceites as suas reivindicações por parte da entidade patronal				6 ---- Poder-se-á aferir que os trabalhadores Portugueses defendem algumas regras e limitações no direito à greve?	
	6 Os trabalhadores deveriam recorrer a outras formas de reivindicação dos seus direitos, em vez da Greve					

Fig. 1 – Elaboração própria

## Revisão da literatura

### Evolução histórica do direito à greve em Portugal

A greve é compreendida como a abstenção a prestar trabalho, por parte dos trabalhadores, como forma de verem satisfeita a sua pretensão, originando um conflito coletivo que tem como objetivo melhorar as condições de trabalho.

De acordo com a terminologia, em português, a palavra greve, é de origem francesa “*gréve*”, existindo uma significativa diferença terminológica entre as diversas línguas.<sup>1</sup>

*“Em termos históricos, a greve começou por ser entendida como um delito, punível criminalmente. Durante o século XIX, tal aconteceu nos Estados Europeus e também na Monarquia Constitucional Portuguesa.”<sup>2</sup>*<sup>3</sup>

A greve tornou-se a única forma que os trabalhadores tinham de se opor,<sup>4</sup> pois antigamente estes nem podiam participar na vida política, como enuncia Luís Menezes Leitão<sup>5</sup>; o séc. XIX foi aquele que registou o maior número de greves, por diversos países europeus, vindo Portugal a sentir este fenómeno a partir de 1849, surgindo diversas greves pelo país, que se propagaram até ao final da monarquia.<sup>6</sup>

Pedro Romano Martinez enuncia que *“Historicamente, a greve, além da fundamentação atual, encontrava-se justificada como direito de oposição por parte daqueles que não tinham possibilidade de participar na vida política, em razão do regime eleitoral censitário.”<sup>7</sup>*

Em Portugal, o direito à greve foi expressamente reconhecido na I República, através do Decreto de 6 de dezembro de 1910, vindo assim revogar o art. 277º do Código Penal,<sup>8</sup> que punia os trabalhadores por se coligarem, através da greve, como também pelas reivindicações, entre outros aspetos.

Com a implantação da República e com este Decreto, a greve foi aceite como sinónimo de liberdade, permitindo-se aos trabalhadores reivindicarem as suas pretensões, tornando-se assim o primeiro passo legal para se determinar a greve enquanto direito dos trabalhadores.<sup>9</sup>

Curiosamente, *“Em consequência da legalização, logo após a proclamação da república, o número de greves anuais passa a contar-se pela ordem das centenas, já que os operários pretendiam que a Revolução de 5 de outubro, para além de implicar a mudança de regime, viesse igualmente satisfazer as suas pretensões de ordem laboral.”<sup>10</sup>*

<sup>1</sup> “A expressão varia muito nas diversas ordens jurídicas. (...) A origem da expressão francesa gréve, que deu origem ao correspondente termo português, resulta do facto de os trabalhadores parisienses sem trabalho, principalmente os do sector da construção civil, costumarem reunir-se na Place de Gréve, ...”. LEITÃO, Luís Menezes – Direito do Trabalho. 4º edição, Almedina, 2014, p. 623.

<sup>2</sup> Idem.

<sup>3</sup> “É assim que o art. 277º do Código Penal de 10 de Dezembro de 1852, mantido sem alterações pela Nova Reforma Penal de 14 de Junho de 1884, e que transitou com o mesmo número e sem alterações de redação para o Código Penal de 1886 qualifica como crime s coligações operárias e patronais, as quais eram punidas com pena de prisão agravada de 1 a 3 anos para os que tivessem promovido a coligação, a dirigissem, ou usassem de violência ou ameaça para assegurar a sua execução.” Idem.

<sup>4</sup> “As greves singulares que tem havido no País são esboços incertos da opinião mal formada dos trabalhadores, como não podia nem poderá deixar de ser enquanto a sua educação escolar e profissional permanecer no estado de atraso actual que nos causa a inferioridade nacional em concorrência com os outros povos cultos.” TENGARRINHA, José - As greves em Portugal: uma perspectiva histórica do século XVIII a 1920. Análise Social, vol. XVII (67-68), 1981-3.º-4.º, p. 573.

<sup>5</sup> LEITÃO, Luís Menezes – Direito do Trabalho. 4º edição, Almedina, 2014, p. 623.

<sup>6</sup> “Consequentemente, a tipificação criminal da greve acabou por ter muito pouco aplicação.” LEITÃO, Luís Menezes – Direito do Trabalho. 4º edição, Almedina, 2014, p. 624.

<sup>7</sup> MARTINEZ, Pedro Romano – Direito do Trabalho. 4º edição, Almedina, 2008, p. 1192.

<sup>8</sup> Segundo, LEITÃO, Luís Menezes – Direito do Trabalho. 4º edição, Almedina, 2014, p. 624.

<sup>9</sup> De acordo com, MARTINEZ, Pedro Romano – Direito do Trabalho. 4º edição, Almedina, 2008, p. 1192.

<sup>10</sup> LEITÃO, Luís Menezes – Direito do Trabalho. 4º edição, Almedina, 2014, p. 625.

Apesar de toda a mudança política e evolução no tratamento da greve, compreendia-se que a mesma apesar de legalizada, não satisfazia completamente os interesses dos trabalhadores.

Com o Estado Novo, o percurso que se estava a iniciar, referente à defesa do direito à greve, retrocedeu e caminhou-se em sentido contrário, ou seja, proibiu-se a greve e voltou-se a puni-la.<sup>1</sup>

No Estado Novo a conceção política defendida veio proibir as greves e a punir os grevistas penalmente, *“Na prática, tanto durante a Monarquia Constitucional como no Estado Novo tal punição parece não ter sido frequente; a greve tão-só era reprimida policialmente.”*<sup>2</sup>

Legalmente, nos anos seguintes, a proibição da greve veio a ser reforçada, através da Constituição de 1933, que proibiu a suspensão de atividade, de acordo com o art. 26.º e 33.º, indo no seu seguimento, o Estatuto do Trabalho Nacional (Decreto-Lei n.º 23048, de 23 de setembro de 1933, no art. 9.º), como também o Decreto-Lei n.º 23203, de 6 de Novembro de 1933 e o Decreto-Lei n.º 23870, de 18 de Maio de 1934, alterado pelo Decreto-Lei n.º 24936, de 2 de Janeiro de 1935.<sup>3</sup>

Posteriormente, a greve voltou a ser novamente tipificada penalmente, no art. 170.º do Código Penal,<sup>4</sup> através do Decreto-Lei n.º 35105, de 15 de outubro de 1945, alterado posteriormente, que veio qualificar esta conduta como crime, contra a segurança interior do Estado, punindo com pena de prisão, que variava consoante a conduta praticada.<sup>5</sup>

Apesar de toda a repressão política e legal, as coligações operárias e as greves não deixaram de ocorrer, mesmo com a existência de forte opressão e repressão policial, que se vivia naquela época histórica.

O panorama mudou de novo no dia 25 de Abril de 1974, vindo a greve a ser reconhecida como um direito dos trabalhadores, segundo o Decreto-Lei n.º 392/74, de 27 de agosto contend algumas especificidades, como a distinção entre greves lícitas e ilícitas, entre outras características.<sup>6</sup>

A partir de 1974, através deste DL, viu-se reconhecida a greve enquanto direito dos trabalhadores, sendo posteriormente, em 1976 reconhecida constitucionalmente, no art. 57.º.

Reconhece-se que este DL teve diversas dificuldades técnicas, que na sua aplicação, como na prática, sendo referido por António Monteiro Fernandes, como nula ou escassa.<sup>7</sup>

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<sup>1</sup> Segundo, LEITÃO, Luís Menezes – *Direito do Trabalho*. 4º edição, Almedina, 2014, p. 625.

<sup>2</sup> MARTINEZ, Pedro Romano – *Direito do Trabalho*. 4º edição, Almedina, 2008, p. 1192.

<sup>3</sup> LEITÃO, Luís Menezes – *Direito do Trabalho*. 4º edição, Almedina, 2014, p. 625.

<sup>4</sup> Também António Monteiro Fernandes enuncia que “Mais tarde, o Código Penal, o art. 170.º, veio, por seu turno, prever e sancionar «o encerramento de estabelecimentos comerciais ou industriais e a suspensão ou cessação do trabalho em qualquer serviço do Estado, serviços concessionários ou em outros de interesse público, bem como de qualquer atividade económica sem causa legítima».” FERNANDES, António Monteiro – *Direito do Trabalho*. 12º edição, Almedina, 2004, p. 894.

<sup>5</sup> Podendo ser uma pena de prisão até 6 meses, e em outros casos de 2 anos a 8 anos de prisão. Ver, LEITÃO, Luís Menezes – *Direito do Trabalho*. 4º edição, Almedina, 2014, p. 626.

<sup>6</sup> “O DL 392/74, de 28 de Agosto, reconheceu como um direito dos trabalhadores, embora regulando detalhadamente o seu exercício quer no aspecto processual, quer no respeitante à natureza e amplitude dos objetivos (interesses) prosseguidos.” FERNANDES, António Monteiro – *Direito do Trabalho*. 12º edição, Almedina, 2004, p. 894.

<sup>7</sup> De acordo com, FERNANDES, António Monteiro – *Direito do Trabalho*. 12º edição, Almedina, 2004, p. 896.

*"A atitude do Direito português perante a greve revelou, a partir de 1974, uma decisiva inflexão."<sup>1</sup>*

Como esperado, este reconhecimento veio, posteriormente a ser aceite na Constituição de 1976, no art. 59.<sup>º</sup>, que atualmente, corresponde ao art. 57.<sup>º</sup>.

Assim, veio-se verificar a consolidação do direito à greve, com a sua tutela constitucional, tornando-se um instrumento de proteção e salvaguarda dos interesses dos trabalhadores e defesa da democracia.

A doutrina clarifica este preceito, no sentido de que, *"A posição assumida pelo legislador constitucional perante o direito à greve projetou-se na Lei n.º 65/77, de 26/8, que revogou o DL n.º 392/74. O diploma de 1977 não consubstanciava qualquer tentativa no sentido de qualificar, em termos algo precisos, os motivos ou fundamentos da greve; (...). Apenas assumiam relevo notório os aspectos processuais relativos à deliberação e declaração da greve (...), bem como os referentes à salvaguarda da liberdade de trabalho (...) e dos serviços essenciais (...)."<sup>2</sup>*

Com todas estas alterações, evolução e reconhecimento, em 1997, foi acrescentado ao art. 57.<sup>º</sup>, uma restrição ao direito à greve, nomeadamente a obrigatoriedade de assegurar os serviços mínimos, pois o direito à greve não é um direito absoluto ou ilimitado, sendo necessário limitá-lo para proteção de outros interesses e direitos também constitucionalmente protegidos.

Luís Menezes Leitão refere que *"Efetivamente, todos os direitos fundamentais são objeto de restrições implícitas, em ordem a salvaguardar outros direitos e interesses legalmente protegidos. Admite-se, por isso, a disciplina da greve, e daí o facto ter de ser exercida de boa-fé (art. 522.<sup>º</sup> CT)."<sup>3</sup>*

No entanto, *"O exercício do direito de greve veio a ser regulamentado pela Lei n.º 65/77, de 26 de agosto, a chamada lei da greve, diploma que sofreu alterações com a Lei n.º 30/92, de 20 de Outubro, que foi parcialmente declarada inconstitucional."<sup>4</sup>*

Atualmente, em Portugal, ao contrário de outros Países, o direito à greve é permitido na função pública, encontrando-se o direito à greve regulado no art. 530.<sup>º</sup> e seguintes do CT e art. 394.<sup>º</sup> e seguintes da LTFP.<sup>5</sup>

Como se percebe, a lei portuguesa foi, durante muito tempo, proibitiva, no sentido de impedir manifestações laborais, segundo António Monteiro Fernandes, *"Reconhecido que fora o direito à greve pelo famoso Dec. de 6-12-1910, a Constituição de 1933 colocou-se em posição radicalmente oposta ao proibir o uso da «suspensão de atividade», tanto dos trabalhadores como das empresas, como meio de imposição de interesses coletivos ...".<sup>6</sup>*

Neste seguimento, a greve é entendida como um direito fundamental dos trabalhadores, tutelado constitucionalmente no art. 57.<sup>º</sup> da Constituição da República Portuguesa, que

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<sup>1</sup> FERNANDES, António Monteiro – *Direito do Trabalho*. 12<sup>a</sup> edição, Almedina, 2004, p. 894.

<sup>2</sup> FERNANDES, António Monteiro – *Direito do Trabalho*. 12<sup>a</sup> edição, Almedina, 2004, p. 896.

<sup>3</sup> LEITÃO, Luís Menezes – *Direito do Trabalho*. 4<sup>a</sup> edição, Almedina, 2014, p. 627.

<sup>4</sup> MARTINEZ, Pedro Romano – *Direito do Trabalho*. 4<sup>a</sup> edição, Almedina, 2008, p. 1193.

<sup>5</sup> Segundo, *Idem*, p. 628.

<sup>6</sup> FERNANDES, António Monteiro – *Direito do Trabalho*. 12<sup>a</sup> edição, Almedina, 2004, p. 893.

permite os trabalhadores, numa ação coletiva e concertada, recusar a prestação de trabalho com o objetivo de concretizarem determinado objetivo.<sup>1</sup>

*"A admissibilidade da greve não é hoje contestada nos países que adotaram sistemas políticos pluralistas e de economia de mercado – perspetivas que costumam encontrar-se associadas -, pois o direito de greve é incontestável como instrumento corrector de desequilíbrios."*<sup>2</sup>

Numa democracia, assume-se a preservação dos direitos fundamentais, entre os quais, o direito à greve, que é utilizado como último recurso reivindicativo, por parte dos trabalhadores, no âmbito de conflitos laborais.

Historicamente, este direito teve inúmeras dificuldades em ser reconhecido e concretizado, vindo a ser admitido após inúmeras lutas e movimentos de reivindicação laboral e operária.

As viragens históricas que ocorreram quer em Portugal, como em outros países, só demonstram o sucesso das movimentações sociais e laborais que ocorreram e o impacto que as mesmas tiveram, pois não só conseguiram reconhecer a greve como direito, como dinamizaram o setor laboral, no sentido de criar melhores condições.

Reconhece-se que as greves, atualmente, numa sociedade democrática vêm permitir obter determinados resultados e objetivos, no sentido de estimular reformas laborais, através de diálogo e negociações, que refletem as posições em confronto.

Em suma, a greve é utilizada como instrumento de reivindicação, que consegue protagonizar momentos de reflexão, que impulsiona à reforma laboral ou criação e ajuste de medidas que vão ao encontro dos objetivos dos trabalhadores em greve, podendo as mesmas ter forte impacto em diversos setores, como a economia, a política e o setor social.

### **Diferenças e semelhanças entre a reivindicação do direito à greve no setor público e no setor privado**

*Ab initio*, as principais diferenças entre o setor público e privado, de forma genérica, advém dos objetivos que protagonizam, pois, o setor público tem como principal objetivo concretizar metas que integram a esfera pública coletiva, enquanto o setor privado tem necessidades individuais, decorrentes da esfera privada, em prol da concretização de interesses privados.

O setor público emprega trabalhadores da função pública enquanto o setor privado emprega funcionários privados, a quem são destinados objetivos e missões específicas, , em prol dos interesses da empresa; no setor público o funcionário público desempenha uma função que têm como objetivo a realização de atividades de interesse público, de resolução de problemas da coletividade e funções que vão ao encontro das necessidades gerais e públicas.

Além disso, o setor privado detém regulamentação e instrumentos legais próprios como as convenções laborais, que regulam a sua atividade económica, sendo só aplicado o CT em questões que os CL não abrangam, enquanto na função pública estes são regidos pela LTFP que regula o setor.

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<sup>1</sup> "Ora, a circunstância de o Direito admitir (...) um comportamento com este perfil permite, por si só, intuir os desafios que o instituto coloca à dogmática jurídica." RAMALHO, Maria do Rosário Palma – *Tratado de direito do trabalho. Parte I – Dogmática Geral*. 3º edição, Revista e atualizada ao Código do trabalho de 2009, com as alterações introduzidas em 2011 e 2012, Almedina, 2012, p. 503.

<sup>2</sup> MARTINEZ, Pedro Romano – *Direito do Trabalho*. 4º edição, Almedina, 2008, p. 1193.

Na realidade, os objetivos do setor privado não são os mesmos do setor público, e por isso detém instrumentos legais de regulamentação diferentes.

Assim, enquanto no setor público as dificuldades nas negociações são problemáticas, no setor privado existe maior proximidade e por isso mais liberdade em dialogar com os funcionários e consequente resolução dos conflitos gerados.

Outra diferença é a forma como o conflito laboral, a greve, é resolvido nos dois setores; no setor público não há possibilidade de o mesmo ser mediado e arbitrado, enquanto no setor privado, o conflito pode ser solucionado através da mediação e arbitragem, de forma mais célere e eficaz.

Uma diferença significativa é o motivo da greve, pois no setor privado a greve tem na generalidade como motive as condições de trabalho, as melhorias e as mudanças que se quer impulsionar, ao contrário, no setor público, os motivos podem e devem ser os referidos no setor privado, mas, por vezes, as greves vêm encobertas com motivos ocultos, como por exemplo, motivos políticos.

A semelhança entre a reivindicação do direito à greve no setor público e no setor privado passa pelos objetivos laborais, que a mesma visa concretizar.

Todavia, as diferenças são inúmeras, no seguimento das já enunciadas, percebe-se que o número de pessoas que protagoniza uma greve no setor público é sempre maior do que no setor privado.

O impacto da greve também é diferente, enquanto que o setor privado quando é sujeito à greve, pouco afeta os outros setores e áreas do país, para além da própria empresa face aos dias que não labora, no setor público a greve, devido à dimensão e setores que detém, consegue ter um impacto maior, afetando diversas áreas, como a saúde, educação, economia, a sociedade, os transportes, entre outras áreas.

A ocorrência das greves também difere no setor público para o privado; no setor público ocorrem um número mais elevado de greves quando comparado com o número de greves do setor privado.

A greve no setor público consegue ter um maior impacto e importância, pela natureza e caráter que a mesma detém, ou seja, por ser uma atividade laboral que visa concretizar de funções públicas ao serviço da coletividade; a greve do setor público consegue mesmo criar impacto até no setor privado.

A nível legislativo, o setor público é regulado pela LGTFP (Lei Geral do Trabalho em Funções Públicas) e CT, e o setor privado é regulado por convenções coletivas de trabalho e pelo CT (Código do Trabalho).

Enquanto, no setor privado só há greve depois de se ter tentado resolver o conflito através de negociações coletivas, visando assim impedir a ocorrência de greve por tempo indeterminado, e contribuindo para que as mesmas ocorram de forma pacífica, no setor público, as greves,

raramente precede a negociações, ocorrendo de forma mais recorrente, ofensiva e reivindicativa.<sup>1</sup>

Segundo o art. 534º do CT, o aviso prévio de greve, deve ocorrer com a antecedência mínima de cinco dias, assim, o setor privado, *ab initio*, consegue exercer na íntegra o direito à greve, porque não assegura nenhuma área essencial na sociedade; em oposição, o setor público, não consegue exercer na íntegra o direito à greve, porque é obrigado a prestar serviços mínimos nas áreas sociais indispensáveis, segundo o art. 537º do CT.

A greve é convocada no setor privado pelas associações sindicais, Segundo o art. 531º do CT, sendo muitas vezes precedida de votação em assembleia, enquanto no setor público não se aplica as assembleias, tendo legitimidade para convocar a greve os sindicatos.

Como se percebe, são mais as diferenças entre os dois setores, do que as semelhanças.

Contudo, ressalva-se que as semelhanças decorrem do direito de greve, enquanto direito intrínseco a todos os trabalhadores, independentemente do setor, visando salvaguardar os interesses e proteção dos direitos do trabalhador.

### **Evolução estatística das greves em Portugal até 2016**

*“Apesar de as greves terem muitas vezes repercussões graves na vida das populações e de serem frequentemente noticiadas, em termos percentuais são poucos os trabalhadores que fazem greve; Segundo uma sondagem da Universidade Católica de Abril de 1996, entre 1990 e 1996 só 9,6% dos trabalhadores fizeram greve.”<sup>2</sup>*

Torna-se interessante perceber e analisar a evolução das greves em Portugal, até 2016, de forma a permitir compreender o comportamento da população e a evolução das greves no setor laboral português, no entanto, ressalva-se que a falta de fontes e a escassez de informação referentes às primeiras greves, só permite fazer um breve resumo dos primórdios dos tempos grevistas.

As greves estudadas e analisadas pela doutrina, até ao momento, representam uma pequena parte da realidade, desde logo, pela escassez de informação e pela inexistência de informações oficiais<sup>3</sup>, que só a partir dos fins do século XVII, começaram a ocorrer.<sup>4</sup>

Como indicado anteriormente, ao longo de um longo período histórico a greve era tipificada penalmente, sempre que a mesma ocorria, os poderes públicos encaravam-na como uma conceção de liberdade de trabalho, que era limitada pelo regime, logo, entendida como um motim.

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<sup>1</sup> Segundo, CONCEIÇÃO, Maria da Consolação Vegi da. *A greve no serviço público: elementos conceituais e o debate em torno da sua regulamentação*. Revista Âmbito Jurídico, 2015.

<sup>2</sup> MARTINEZ, Pedro Romano – *Direito do Trabalho*. 4º edição, Almedina, 2008, p. 1191, nota de rodapé 1.

<sup>3</sup> As greves não eram contabilizadas porque “A greve não era, então, um facto socialmente significativo, não constituía matéria de interesse para os leitores dos jornais, haveria também a preocupação de não divulgar tais factos para não estimular a instabilidade social. (...) Com efeito, o uso de armas e o grau de violência parece ser, então, fundamentalmente, o que permitiria distinguir o motim de uma simples paralisação de trabalho com intuições reivindicativas.” TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), I981-3.-4º, p. 582.

<sup>4</sup> De acordo com, TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), I981-3.-4º, p. 582.

Assim, "...as greves de que temos conhecimento antes de 1871 servir-nos-ão como meros indicativos sociais, por vezes muito expressivos, mas, de qualquer modo, insuficientes para atingir conclusões globais."<sup>1</sup>, posto isto, o primeiro conflito laboral que se tem conhecimento, ocorreu no Porto, em 1628, vindo a ocorrer em 1668 uma greve têxtil na Covilhã, e posteriormente, em 1732, uma paralisação dos operários na obra do palácio de Mafra, como forma de reivindicarem os pagamentos de salário em atraso.<sup>2</sup>

A partir do século XVIII,<sup>3</sup> as greves que se teve conhecimento, têm como principal motivo os salários, registando-se como exemplo o ano de 1754, em Lisboa, a greve dos alfaiates.<sup>4</sup>

No princípio do século XIX, as greves passam a ter uma maior dimensão e agitação social, através de conflitos laborais e de amotinações, tendo como exemplo, a greve dos operários do Arsenal em lisboa, 1829, face aos salários em atraso.<sup>5</sup>

*"Depois, durante largo tempo, não sabemos de qualquer movimento grevista, até que, com o aproximar da metade de Oitocentos, surgem greves industriais, sobre as quais, porém, as informações são muito escassas."*<sup>6</sup>

Nas primeiras décadas da segunda metade do século XIX, assinalou-se greves todos os anos, apesar de em número reduzido, dando especial destaque aos operários da construção das vias de ferro, que participaram às centenas nas greves, demonstrando uma forte mobilização para a reivindicação de melhores condições e pagamento de salários.<sup>7</sup>

*"A primeira ideia que retiramos deste brevíssimo balanço até 1870 é a da dispersão geográfica das greves, que, ao contrário do que acontecerá mais tarde, não se encontram esmagadoramente concentradas em Lisboa e no Porto. Em 146yndica lugar observaremos, também diferentemente do que depois se verificará, não serem os assalariados industriais os que a grande distância, dominam o movimento grevista, sendo relevantes as greves agrícolas. Diríamos, ainda, que as greves são normalmente espontâneas e defensivas."*<sup>8 9</sup>

As greves, à medida que o tempo avança, foram aumentando, talvez pela informação que os trabalhadores passaram a ter, que lhes permitiu exigir mais e melhores condições de trabalho,

<sup>1</sup> *Idem.*

<sup>2</sup> Segundo, *Idem.*

<sup>3</sup> "Nessa segunda metade do século XVIII, os conflitos laborais mais importantes de que temos conhecimento dão-se no Alentejo e no Ribatejo, motivados por reivindicações salariais dos jornaleiros, questão que atingiu graves dimensões, a avaliar pela necessidade que se reconheceu de promulgarem sobre o assunto duas disposições legais em 1756 e que mais tarde os lavradores da Beira Litoral solicitaram fossem extensivas à sua região. Sobre estes conflitos chegaram-nos informações de um, em 1814, que atingiu excepcional gravidade, envolvendo centenas de trabalhadores rurais dos campos em redor de Santarém, os quais, como protesto contra a taxação dos salários e não taxação de preços, se recusaram a trabalhar e se amotinaram, enfrentando as autoridades. Igualmente nos vieram notícias de conflitos com assalariados rurais que terão atingido formas grevistas, na Beira Litoral e comarca de Leiria." *Idem*, p. 583.

<sup>4</sup> Segundo, *Idem*, p. 583.

<sup>5</sup> "Um dos ramos mais ativos parece ser o dos vidreiros da Marinha Grande, onde, nos últimos anos da primeira metade do século XIX e na primeira década da segunda metade, temos notícias de greves defensivas contra abaixamento de salários e despedimentos. Ainda na primeira metade, em 1849, há notícia de uma greve de consideráveis dimensões dos operários de cinco fábricas de fundição e serraria da zona da Boavista em Lisboa." TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), 1981-3.º-4º, p. 583.

<sup>6</sup> TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), 1981-3.º-4º, p. 583.

<sup>7</sup> Ver exemplos em, *Idem*, p. 583 e 594.

<sup>8</sup> *Idem*, p. 584.

<sup>9</sup> "O carácter espontâneo e defensivo é particularmente visível nas greves industriais, o que estará relacionado com a evidente falta de organização dos assalariados deste sector." *Idem*.

mas não só aumentou o número de greves como também a sua localização; Portugal foi sujeito durante décadas a greves dispersas; no entanto, os maiores números de greves são nas grandes cidades, como Lisboa e Porto.<sup>1</sup>

A evolução grevista em Portugal, pode ser caracterizada por três fases, que se observam de 1871 adiante, “...uma primeira fase que se inicia em 1871 e se estende até 1886; nesses 16 anos ocorrem 140 greves, o que dá uma média anual de 8,8. Na segunda fase, que vai de 1887 a 1908, verificam-se 1428 greves, com média anual de 64,9; nesta fase reconhece-se, bem visivelmente, um período de maior aceleração entre 1902 e 1907, que atinge o ponto mais alto em 1904, com 146 greves. Na terceira fase, que começa em 1909, contámos 3068 greves até 1920, o que dá a média anual de 255,7.”<sup>2</sup>

O movimento grevista teve períodos de alta e baixa taxa de vitórias, sendo reconhecido no período que antecede a revolução republicana, a fase que regista uma linha de vitórias com evolução crescente e brusca, proveniente de um movimento ofensivo e progressivo que se destaca.<sup>3</sup>

Reconhece-se que a primeira fase vai até ao início da década de 90 e a terceira fase se inicia um pouco antes da revolução republicana, demonstrando assim, a amplitude e evolução dos movimentos grevistas, ao longo de décadas, que vieram a ser um forte movimento reivindicativo da sociedade trabalhista.

Ao longo deste período histórico, existiram três fatores que impulsionaram a ocorrência das greves, como a conjuntura económica, a situação política e a organização operária.<sup>4</sup>

Como se percebe, a greve sempre foi, mesmo nos períodos de tempo em que era proibida, uma forma de reivindicação laboral que, posteriormente, se tornou um direito fundamental dos regimes democráticos.

Historicamente, houve vários momentos grevistas, quer no período da monarquia constitucional, como no período da 1ª República, todavia, as greves que nos primeiros tempos eram caracterizadas por greves dos agricultores e dos operários da construção, no fim do século XIX e início do século XX, passaram a ser greves sobretudo de operários, advindas do aparecimento acrescido das classes 147yndic, que permitiram o surgimento de outros grupos profissionais.

Segundo dados estatísticos<sup>5</sup>, que enuncia o número de greves e trabalhadores abrangidos, compreendendo o período de 1986 a 2016, pode-se chegar à conclusão que o ano em que houve mais greves foi em 1992, com 409 greves, no entanto, este não foi o ano em que as greves abrangeram mais trabalhadores, foi o ano de 1989 que se contabilizou o número mais elevado, 296 mil trabalhadores que aderiram à greve.

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<sup>1</sup> De acordo com, TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), 1981-3.º-4.º, p. 586.

<sup>2</sup> TENGARRINHA, José. *As greves em Portugal: uma perspetiva histórica do Século XVIII a 1920*. Análise Social, vol. XVII (67-68), 1981-3.º-4.º, p. 593.

<sup>3</sup> De acordo com, *Idem*.

<sup>4</sup> Segundo, *Idem*.

<sup>5</sup> Retirados do site: <<https://www.pordata.pt/>>

Percebe-se nos dados estatísticos, que o número elevado de greves num ano, não significa um número elevado de trabalhadores que aderiram às mesmas, pois numa só greve podem participar vários trabalhadores, ultrapassando o número dos trabalhadores de um ano, do total de greves.

Os anos em que houve mais greves, até 2016, foram: o ano 1986, seguido de um período de 1988 a 1992, e posteriormente, o ano de 2002, 2010 e 2012.

Os anos em que participaram mais trabalhadores nas greves foram: o ano de 1986, 1989, 1992, 1998, 2002 e 2012.

Em suma, os dados estatísticos, atuais, permitem perceber a evolução das greves e da sua aderência como também, permitem estabelecer diferenças entre as décadas e no número de aderentes às greves, possibilitando assim perceber a evolução das greves no contexto português.

A greve foi sempre geradora de reações públicas de descontentamento, contudo, destaca-se os movimentos que em períodos conturbados na política e economia se tornaram mais marcantes e volumosos, designadamente o ano de 2013, com a crise profunda que se sentiu em Portugal.

As greves mais recentes, pelo menos as da década de 2010, afirmam-se como consequência de um contexto internacional económico instável, advindo da falta de transparência dos sistemas financeiros, crise no setor político e económico, entre outros fatores que despoletam um descontentamento acrescido dos trabalhadores.

## Análise e interpretação dos resultados

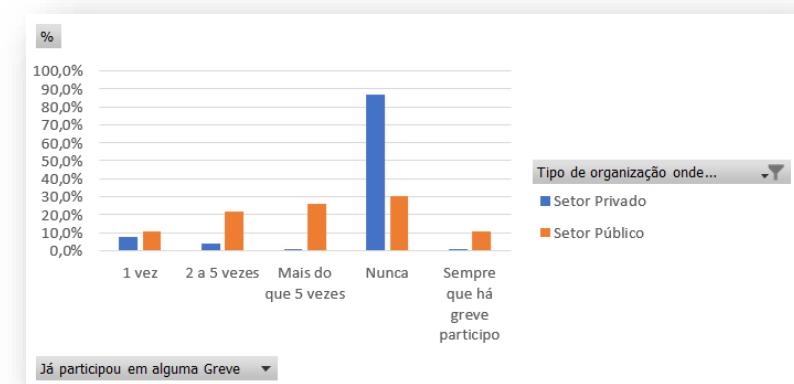
Para simplificar a análise e conclusões, dividimos este capítulo em seis subgrupos, de forma a responder às questões que formulamos.

A primeira questão que pretendemos responder é:

**Grupo 1 – Será que os trabalhadores dos organismos públicos que correspondem a cerca de 12% da população ativa Portuguesa pensam e AGEM de forma diferente dos trabalhadores do setor privado relativamente à Greve?**

### P1 – Já participou em alguma greve

Já participou em alguma	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
1 vez	44	7,6%	23	11,0%	67	8,5%
2 a 5 vezes	22	3,8%	45	21,5%	67	8,5%
Mais do que 5 vezes	5	0,9%	55	26,3%	60	7,6%
Nunca	501	86,7%	64	30,6%	565	71,8%
Sempre que há greve participo	6	1,0%	22	10,5%	28	3,6%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



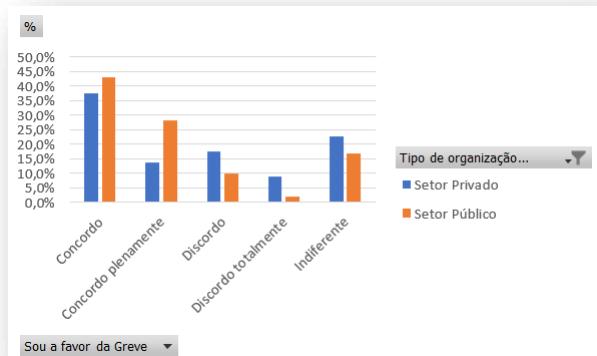
As respostas dos participantes indicam que 86% dos inquiridos que trabalham no setor privado, nunca participaram em greves.

Relativamente ao setor publico somente 30,6% referem que nunca participaram em greves, sendo que de referir que 10% referem que sempre que há greves participa. Contudo se considerarmos a amostra total, percebe-se que mais de 70% dos inquiridos nunca participaram em greves.

## P2 - Sou a favor da greve

Sou a favor da greve	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Concordo	217	37,5%	90	43,1%	307	39,0%
Indiferente	130	22,5%	35	16,7%	165	21,0%
Discordo	101	17,5%	21	10,0%	122	15,5%
Concordo plenamente	79	13,7%	59	28,2%	138	17,5%
Discordo totalmente	51	8,8%	4	1,9%	55	7,0%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>

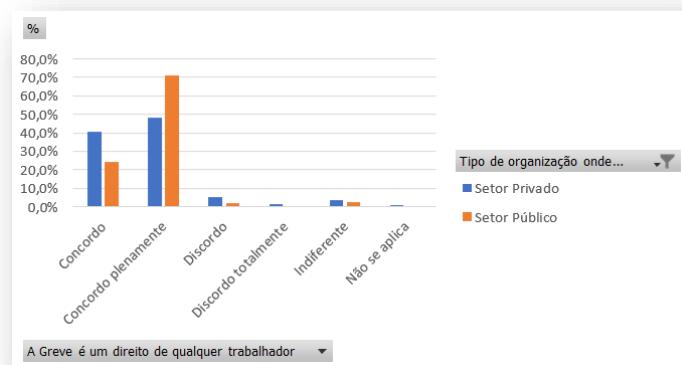
A greve é um direito de qualquer trabalhador	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Concordo plenamente	278	48,1%	148	70,8%	426	54,1%
Concordo	236	40,8%	51	24,4%	287	36,5%
Discordo	29	5,0%	4	1,9%	33	4,2%
Indiferente	20	3,5%	5	2,4%	25	3,2%
Discordo totalmente	9	1,6%	1	0,5%	10	1,3%
Não se aplica	6	1,0%	0	0,0%	6	0,8%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Mais de metade dos inquiridos são a favor da greve. Não existem grandes diferenças entre funcionários públicos e privados. É relevante que cerca de 25% discordam do direito à greve e 20% são indiferentes.

**Grupo 2 – Será que os trabalhadores colocam em causa o próprio direito à greve?**

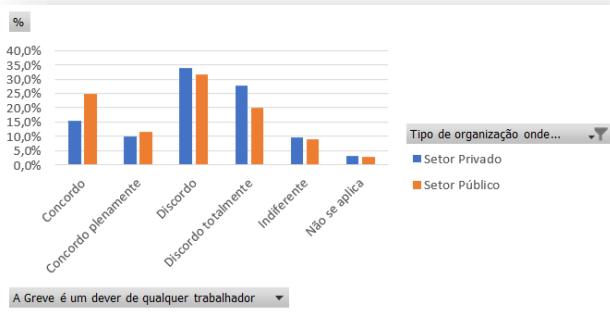
**P1 – A greve é um direito dos trabalhadores**



Ambos os setores concordam que o direito à greve é um direito dos trabalhadores (mais e 90%).

### P2 – A Greve é um dever dos trabalhadores

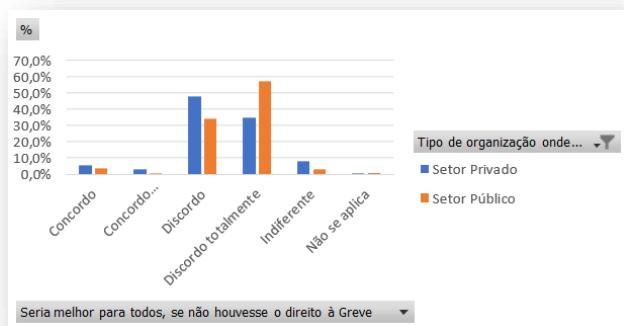
A Greve é um dever de qualquer trabalhador	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Discordo	196	33,9%	66	31,6%	262	33,3%
Discordo totalmente	161	27,9%	42	20,1%	203	25,8%
Concordo	90	15,6%	52	24,9%	142	18,0%
Concordo plenamente	58	10,0%	24	11,5%	82	10,4%
Indiferente	55	9,5%	19	9,1%	74	9,4%
Não se aplica	18	3,1%	6	2,9%	24	3,0%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Ambos os setores discordam (cerca de 60%) que a Greve deva ser um **dover**; no entendimento dos inquiridos, a greve é um direito dos trabalhadores, mas não um dever.

### P3 – Seria melhor para todos se não houvesse direito à greve

	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Seria melhor para todos se não houvesse direito à greve						
Discordo	275	47,6%	71	34,0%	346	44,0%
Discordo totalmente	202	34,9%	120	57,4%	322	40,9%
Indiferente	47	8,1%	7	3,3%	54	6,9%
Concordo	32	5,5%	8	3,8%	40	5,1%
Concordo plenamente	18	3,1%	2	1,0%	20	2,5%
Não se aplica	4	0,7%	1	0,5%	5	0,6%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>

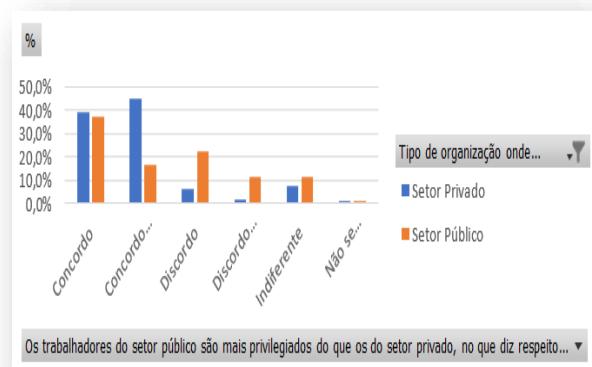


Mais de 85% dos inquiridos discordam de que fosse melhor para todos a proibição do direito à greve.

**Grupo 3 – Será que a população Portuguesa entende que os trabalhadores do setor 152yndic são beneficiados no direito à greve?**

**P1 – Os trabalhadores do sector 152yndic são mais beneficiados do que os do sector privado no que diz respeito ao direito à greve?**

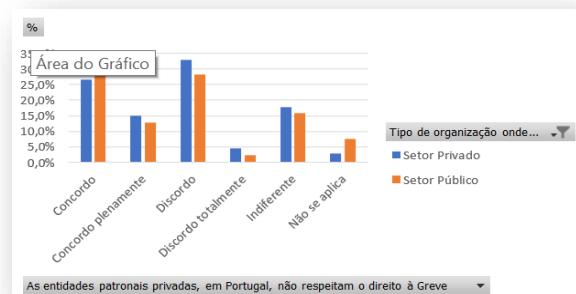
	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Os trabalhadores do setor público são mais beneficiados do que os do privado no que diz respeito a						
Concordo plenamente	258	44,6%	34	16,3%	292	37,1%
Concordo	225	38,9%	78	37,3%	303	38,5%
Indiferente	45	7,8%	24	11,5%	69	8,8%
Discordo	36	6,2%	47	22,5%	83	10,5%
Discordo totalmente	9	1,6%	24	11,5%	33	4,2%
Não se aplica	5	0,9%	2	1,0%	7	0,9%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Mais de 80% dos trabalhadores do setor privado concordam com a afirmação. Relativamente aos trabalhadores do setor público, mais de 50% também concorda que os trabalhadores do setor público são mais beneficiados no direito à greve.

**Grupo 4 – Qual o entendimento sobre o posicionamento do setor empresarial privado relativamente à greve?**

### P1 – As entidades privadas não respeitam o direito à greve?



As entidades patronais privadas em Portugal, não respeitam o direito à greve	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Concordo	154	26,6%	69	33,0%	223	28,3%
Concordo plenamente	86	14,9%	27	12,9%	113	14,4%
Discordo	191	33,0%	59	28,2%	250	31,8%
Discordo totalmente	27	4,7%	5	2,4%	32	4,1%
Indiferente	103	17,8%	33	15,8%	136	17,3%
Não se aplica	17	2,9%	16	7,7%	33	4,2%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>

Existe uma grande semelhança entre os inquiridos do setor publico e privado no que diz respeito à opinião sobre se as entidades privadas respeitam o direito à greve.

42% dos inquiridos são de opinião que as empresas privadas não respeitam o direito à greve.

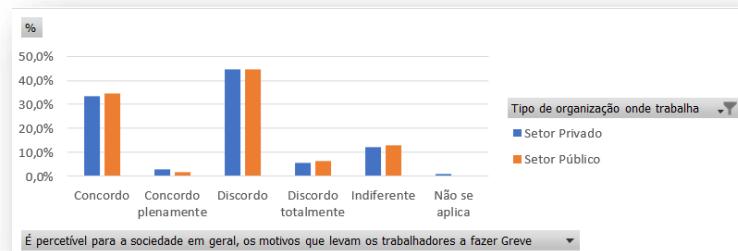
36% não concorda com a afirmação e cerca de 20% não têm opinião.

Ainda que ambos os setores estejam em sintonia, percebe-se que a população está bastante dividida relativamente a esta questão.

**Grupo 5 – As consecutivas greves lideradas pelos sindicatos são bem aceites e entendidas pela população em geral?**

### P1 – É percetível para a sociedade os motivos que levam os trabalhadores a fazer greve?

É perceptível para a sociedade em geral os motivos que levam os trabalhadores a fazer greve?	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
Discordo	258	44,6%	93	44,5%	351	44,6%
Concordo	193	33,4%	72	34,4%	265	33,7%
Indiferente	71	12,3%	27	12,9%	98	12,5%
Discordo totalmente	33	5,7%	13	6,2%	46	5,8%
Concordo plenamente	17	2,9%	4	1,9%	21	2,7%
Não se aplica	6	1,0%	0,0%	0,0%	6	0,8%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>

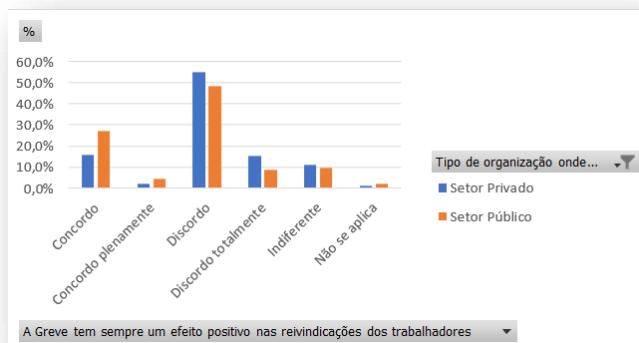


Uma vez mais a opinião entre os inquiridos do setor publico e do privado são semelhantes.

Contudo existe uma grande divisão nos inquiridos. Cerca 33% dos inquiridos acha que é percetível para a sociedade os motivos que levam os trabalhadores a fazer greve, mas cerca de 50% acha que não é percetível.

### P2 – A greve tem sempre um efeito sindical nas reivindicações

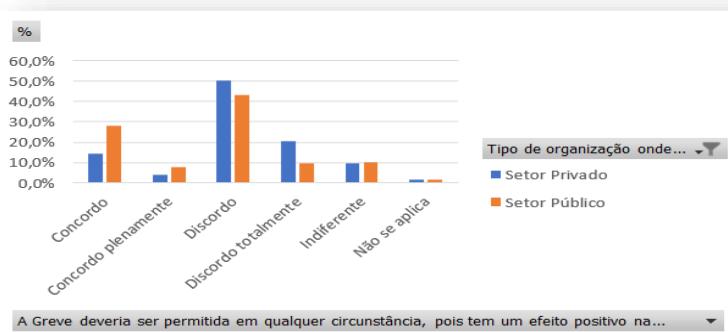
	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contag em	%		
<b>A greve tem sempre um efeito positivo na reivindicações dos trabalhadores</b>						
Discordo	318	55,0%	101	48,3%	419	53,2%
Concordo	90	15,6%	57	27,3%	147	18,7%
Discordo totalmente	88	15,2%	18	8,6%	106	13,5%
Indiferente	64	11,1%	20	9,6%	84	10,7%
Concordo plenamente	12	2,1%	9	4,3%	21	2,7%
Não se aplica	6	1,0%	4	1,9%	10	1,3%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Como se percebe pelo gráfico, mais de metade dos inquiridos são de opinião que a greve nem sempre tem um efeito positivo nas reivindicações.

### P3 – A Greve deverá ser sempre permitida em qualquer circunstância

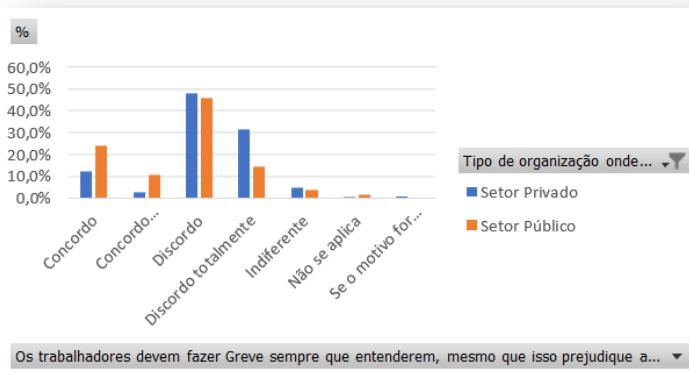
	Setor Privado		Setor Público		Total Contag	Total %
	Contagem	%	Contag em	%		
<b>A greve deveria ser permitida em qualquer circunstância pois tem um efeito positivo na</b>						
Discordo	290	50,2%	90	43,1%	380	48,3%
Discordo totalmente	119	20,6%	20	9,6%	139	17,7%
Concordo	82	14,2%	59	28,2%	141	17,9%
Indiferente	55	9,5%	21	10,0%	76	9,7%
Concordo plenamente	23	4,0%	16	7,7%	39	5,0%
Não se aplica	9	1,6%	3	1,4%	12	1,5%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Cerca de 2/3 dos inquiridos são de opinião que a greve não deveria ser permitida em qualquer circunstância.

#### P4 – Os trabalhadores devem fazer greve mesmo que isso prejudique toda a população

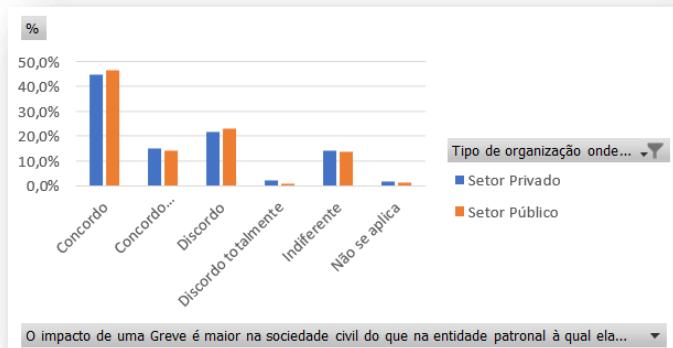
Os trabalhadores devem fazer greve mesmo que isso prejudique toda a...	Setor Privado		Setor Público		Total	
	Contagem	%	Contag...	%	Contag...	Total %
Discordo	276	47,8%	96	45,9%	372	47,3%
Discordo totalmente	181	31,3%	30	14,4%	211	26,8%
Concordo	72	12,5%	50	23,9%	122	15,5%
Indiferente	29	5,0%	8	3,8%	37	4,7%
Concordo plenamente	15	2,6%	22	10,5%	37	4,7%
Não se aplica	4	0,7%	3	1,4%	7	0,9%
Se o motivo for correcto	1	0,2%	0,0%	0,0%	1	0,1%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Os resultados indicam que 75% dos inquiridos discordam que os trabalhadores façam greve sempre que entenderem, mesmo que isso prejudique a população geral. Percebe-se que existe semelhanças entre os trabalhadores do setor publico e privado.

**P5 – O Impacto da greve é maior na sociedade civil do que no na respetiva entidade patronal**

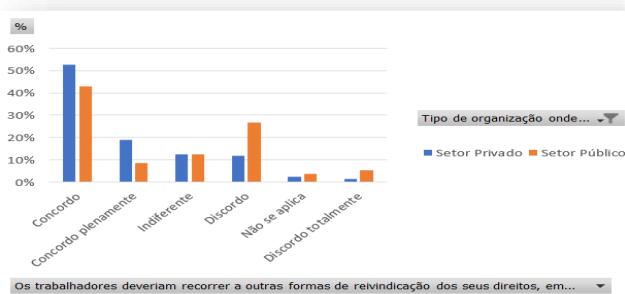
	Setor Privado		Setor Público		Total		
	Contagem	%	Contagem	%	Contag Total	Total % em	
<b>O impacto das greves é maior na sociedade civil do que na entidade patronal a que diz respeito</b>							
Concordo	260	45,0%	97	46,4%	357	45,4%	
Discordo	125	21,6%	48	23,0%	173	22,0%	
Concordo plenamente	87	15,1%	30	14,4%	117	14,9%	
Indiferente	83	14,4%	29	13,9%	112	14,2%	
Discordo totalmente	12	2,1%	2	1,0%	14	1,8%	
Não se aplica	11	1,9%	3	1,4%	14	1,8%	
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>	



Mais de 60% dos inquiridos são de opinião que o impacto das greves são maiores na sociedade civil do que na entidade patronal visada.

**Grupo 6 – Poder-se-á aferir que os trabalhadores Portugueses defendem algumas regras e limitações no direito à greve?**

**P1 - Os trabalhadores deveriam recorrer a outras formas de reivindicação para além da greve.**



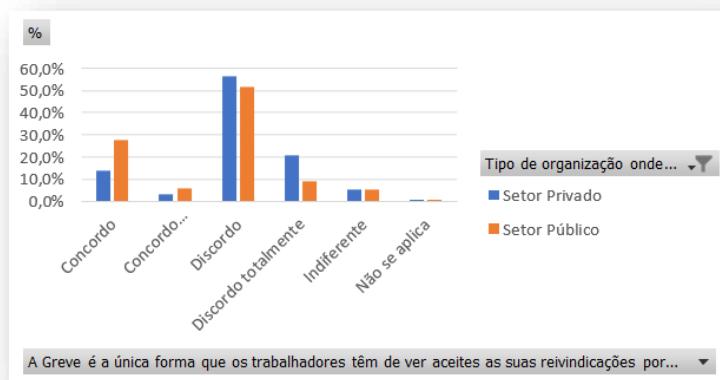
	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
<b>Os trabalhadores deveriam recorrer a outras formas de reivindicação para além da greve</b>						
Concordo	304	52,6%	90	43,1%	394	50,1%
Concordo plenamente	110	19,0%	18	8,6%	128	16,3%
Indiferente	73	12,6%	26	12,4%	99	12,6%
Discordo	69	11,9%	56	26,8%	125	15,9%
Não se aplica	14	2,4%	8	3,8%	22	2,8%
Discordo totalmente	8	1,4%	11	5,3%	19	2,4%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>

Mais de 2/3 dos inquiridos, é de opinião que os trabalhadores deveriam recorrer a outras formas de reivindicação dos seus direitos para além da greve.

Por outro lado, enquanto só 11,9% do setor privado discordam, no setor publico a percentagem é de 26,8%.

## P2 – A greve é a única forma de reivindicação dos trabalhadores

	Setor Privado		Setor Público		Total Contagem	Total %
	Contagem	%	Contagem	%		
<b>A greve é a única forma dos trabalhadores verem satisfeitas as suas reivindicações</b>						
Discordo	325	56,2%	108	51,7%	433	55,0%
Discordo totalmente	119	20,6%	19	9,1%	138	17,5%
Concordo	80	13,8%	58	27,8%	138	17,5%
Indiferente	31	5,4%	11	5,3%	42	5,3%
Concordo plenamente	20	3,5%	12	5,7%	32	4,1%
Não se aplica	3	0,5%	1	0,5%	4	0,5%
<b>Total Geral</b>	<b>578</b>	<b>100,0%</b>	<b>209</b>	<b>100,0%</b>	<b>787</b>	<b>100,0%</b>



Cerca de 72% dos inquiridos discordam que a greve seja a única forma que os trabalhadores têm de reivindicação. Mantem-se a similaridade entre as opiniões do setor publico e do setor privado.

## Conclusão

Em termos globais percebe-se que quanto às respostas não existem grandes diferenças entre os funcionários do setor publico e do setor privado, o que contrasta com a nossa ideia empírica de partida de que os trabalhadores do setor publico e privado teriam percepções diferentes sobre o direito à greve.

Percebe-se que a generalidade dos inquiridos, são favoráveis à greve, defendem o direito à greve, mas não o dever; manifestam a opinião de que os trabalhadores não deveriam poder recorrer à greve em qualquer circunstância, mostrando preocupação com a população em geral.

Assim, entendem que os trabalhadores deveriam arranjar outras alternativas para reivindicar os seus direitos. É de relevar que também nesta questão existe uma grande aproximação entre funcionários públicos e privados, o que é sintoma duma grande similaridade de ideias dos trabalhadores Portugueses enquanto parte integrante da população.

Será importante perceber nos estudos futuros que se vão desenvolver sobre o tema, com base no mesmo questionário, se é possível encontrar diferenças na percepção entre homens e mulheres, se as habilitações, a região geográfica onde vivem ou o tipo de contrato e tempo de serviço, influenciam a percepção sobre a greve.

Os resultados levam-nos a concluir que será importante uma reflexão profunda na sociedade Portuguesa sobre o tema, bem como o estudo de limitações ao recurso à greve, tentando encontrar alternativas para que os trabalhadores possam reivindicar os seus direitos sem prejudicar a população em geral, sendo que mais de metade dos inquiridos são de opinião que os motivos das greves não são perceptíveis para a população.

Os resultados justificam a continuação da investigação sobre a Greve, com o intuito de serem encontradas, avaliadas e ponderadas outras formas de reivindicação que reduzam as

convocações das greves e os impactos negativos que as mesmas causam na generalidade da população.

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## Step by Step for Social Innovation with Neuro-Fuzzy Modelling<sup>1</sup>

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### Abstract

Innovation as the key element of economic development is a crucial factor in social processes. Technical innovations can be identified as prerequisites and causes of social change and cannot be created without the renewal of society. Technological and economic innovations cannot respond to all social challenges. Natural and material resources are becoming more and more scarce, so it is necessary to use investment assets as efficiently as possible, maximizing social and economic efficiency. It is a major task to address the backwardness of social disparities and to create opportunities for catching up in peripheral regions. The aim of our study is to identify the local level of catching-up opportunities that arise from social innovation efforts, and model values for other disadvantaged areas. The investigated solution is presented as a case study after a structured analysis of the local initiatives of the settlement. In addition to examining the prominent role of local actors and networks, we present the process of social innovation, the framework conditions that determine systemic functioning, as well as the social needs, potentials and barriers that determine social innovation efforts. The study identifies the social, economic and political challenges associated with social needs in peripheral regions, as well as proposals for solutions based on neuro-fuzzy modelling that can be adapted to other disadvantaged areas. Exploring solutions and innovative structures and collaborations provides an opportunity to demonstrate the role of the social innovation process in local-level catching-up initiatives.

**Keywords:** social innovation, disadvantaged settlements, catching up, neuro-fuzzy modelling, process orientation

### Introduction

A number of fundamental problems of the economy and society - such as the decrease in population, unemployment, migration, or lagging regions - require long-term solutions that

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need new forms of cooperation between social actors, the direct voluntary participation of citizens in decision-making processes, and the pursuit of social innovation efforts (Veresné Somosi-Varga, 2018). Social innovation and so-called technical innovations reinforce each other and as a result they can respond to local, community-level challenges, find solutions to everyday problems and thus enhance the well-being of the community. Innovations resulting from the expansion of innovative areas can be characterized as complementary processes.

Social innovation efforts can be interpreted at several levels.

Micro-level social innovation is based on the involvement of companies, social enterprises and civil society organizations implementing social innovations at the organizational level together with the novel co-operation of citizens and local governments.

The analysis of social innovations at the meso level focuses on investigating novel regional cooperations. The exploration of contexts makes it possible to define the framework conditions that will be involved in generating regional social innovation. Defining and studying relationships between settlements, network analyses and micro-regional cooperations make it possible for us to measure the regional social innovation process.

When examining macro-level social innovation, network and systematic analysis of regional contexts is required. Examining a representative sample, a structured interview and a classical network theory approach make it possible to identify national-level social innovation efforts. Identifying global social initiatives requires the implementation of an international analysis by examining the adaptability of expert interviews and international practices.

In the first part of the study we examine the relationship between social and technical innovations, with special emphasis on the role of social efforts in the catching-up process of disadvantaged settlements. In the literature review, we also identify the factors that can be used to determine the process-oriented examination of social innovation.

In addition to determining the process-oriented framework, we examine the micro level of social innovation and the framework conditions that can be interpreted at the organizational level, which enables the identification of social innovations at organizational level and also their generating potential. Among micro-level social initiatives, we focus on exploring good practice within a structured interview. Social innovation as a new means and model to help the process of catching up is a kind of good practice in the toolbox of local governments, especially in disadvantaged regions.

We are exploring a new and innovative solution that we present in the form of a case study. Case analysis enables us to present good practice in a complex way, creating opportunities for adaptation, sustainable operation and effective implementation.

### **The relationship between social and technical innovation**

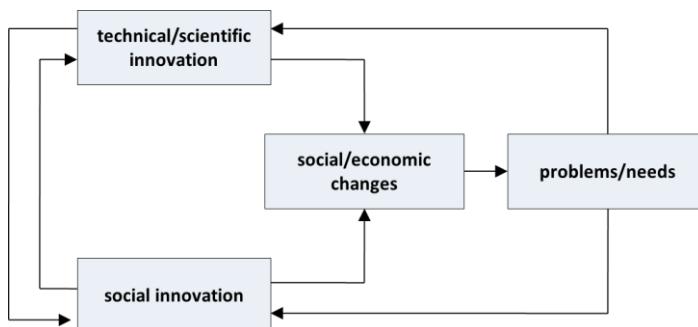
In 1970, Dénes Gábor examined several types of innovations, and attributed the backlog of efforts to increase social welfare to the predominance of technical innovations. In his opinion, social initiatives can be identified as reforms controlling innovation (Gábor, 1970). Drucker (1985) emphasized the importance of novelty in innovation. His starting point was the fact based on empirical observations that there was a shift in the focus in the US economy. Drucker stated that the economy typically being controlled until then had shifted towards the working principle of so-called entrepreneurial economy. As a result of the entrepreneurial economy

there was not a stagnant period in the American economy, which was due to the descent of the Kondratyev cycle. According to his reasoning, the development of the entrepreneurial economy was primarily due to social innovations, therefore Drucker had already emphasized the importance of social innovations in the 1980s. He argues that innovation is needed in all areas of life, innovation must not be limited to technical or economic areas, but it is also a social category. Expressing this theory he made the concept of social innovation more important.

Smeds (1994) identifies technological innovations as prerequisites and causes of social change. According to Introna et al. (1999), technological innovation cannot occur without the renewal of the society. Innovation is an "expanded" interpretation of a new or significantly improved product, process, marketing method, or organizational method in business practice, organizations or in relationships motivating cooperation (EC, 2006). The definition primarily means guidelines for technical and economic innovation, however, the European Union's research and development and innovation policy (Horizon 2020) already pays particular attention to defining social innovations. Murray and his co-workers (2010) investigated novel social co-operation and, in their opinion, new structures are developing new social solutions to address social problems through technological development. Franz et al. (2012) examine technical and social innovations separately, and emphasize the importance of the question whether innovations with new technological achievements are needed (desirable) for the society in every case. In their view, the new is not necessarily a good and desirable category, and social innovation efforts mean a wide range of practices that are widespread and accepted in the society.

The different types of innovation interact and lead to the transformation of economic and social relations.

Technological and economic innovations cannot respond to all social challenges. Natural and material resources are becoming more and more scarce, so it is necessary to use investment assets, maximizing social and economic efficiency. It is a major task to address the backwardness originating from regional disparities and to create opportunities for catching up in peripheral regions.



**Figure 1** Embeddedness of social innovation. Source: Kocziszky-Veresné Somosi, 2016

Social innovation can be interpreted as a concept that results in meeting the needs of society, along with new or novel cooperations and structures. Social innovation efforts lead to the renewal of society while encouraging members of society to act.

After a structured review of the literature, it can be stated that the theoretical field of social innovation is divided into six basic approaches.

Approach, emphasis	Author	Main results
<b>meeting community needs</b>	Fairweather, G. W. (1967), Bagnasco, A. – Sabel, C. F. (1995), Hazel, C. – Onaga, E. (2003), Mulgan, G. et al. (2007), Murray, R. et al. (2012), Neumeier, S. (2012), Bulut, C. et al. (2013)	social and behavioural changes
<b>creative problem solving, innovative cooperation</b>	Whyte, W. F. (1982), Zapf, W. (1989), Bagnasco, A. és Sabel, C. F. (1995), Mumford, D. M. et al. (2002), Phills, J. et al. (2008), Jégou, F. – Manzini, E. (2008), Moulaert, F. et al. (2013), Balaton, K. – Varga, K. (2017)	new social relationships, renewed social organisations
<b>addressing social challenges</b>	Kemp, R. et al. (1998), Rotmans, J. et al. (2001), Phills, J. et al. (2008), Voss, J.-P. et al. (2009), Witkamp, M. J. et al. (2011), Weerawardena, J. – Mort G. S. (2012)	special solutions, social and technological changes
<b>improving the quality of life and well being</b>	Hazel, C. – Onaga, E. (2003), Mulgan, G. et al. (2007), Pol, E. – Ville, S. (2009), Peyton Young, (2011), CRISES (2012), Cajaiba-Santana, G. (2013), Kocziszky, Gy. et al. (2017)	social and technological innovations, community-related innovations
<b>local (community- related) development</b>	Bagnasco, A. – Sabel C. F. (1995), Moulaert, F. et al. (2005), Swyngedouw, E. (2005), Gerometta, J. (2005), Membretti, A. (2007), Jégou, F. – Manzini, E. (2008), MacCallum, D. (2009), Moulaert, F. et al. (2010), Bouchard, M. J. et al. (2013)	strengthening social cohesion, social change
<b>link with further innovations</b>	Gábor, D. (1970), Drucker, P. (1980), Zapf, W. (1989), Pot, F. – Vaas, F. (2008), Franz, H.-W. et al. (2012), García, M. et al. (2015)	solutions generating further innovations

**Table 1** Main focus of the concept of social innovation. Source: own compilation

### Social innovation as a means of catching up

Social challenges requiring long-term solutions (e.g. unemployment, migration, disadvantaged areas) require new social cooperation. Social innovation is a necessary step towards improving development and competitiveness, where the role of innovators is emphasized. Innovators are members of the local community or, more broadly, of the society, who meet the

needs of new or novel solutions in response to their needs. In our research, we pay special attention to the most disadvantaged areas and explore the opportunities for catching up. In the case of lagging settlements, it is absolutely necessary to introduce novel co-operation, to identify and accurately meet local needs, to involve inhabitants in local decisions, and to analyze the impact of social innovation efforts on raising the standard of living.

The research emphasizes the importance of exploring new social innovation efforts in the process of recording good practices in the database, as novel cooperations in certain settlements and between settlements serve as examples for other disadvantaged settlements. Presenting and learning about local, regional, and international experience and practices is useful both to the example-giving and later to the example-taking parties. The former can expand their knowledge of sustainability, while the latter can examine the challenges of adaptation and the opportunities offered by new structures.

It is a major task to address the backwardness originating from regional disparities and to create opportunities for catching up in peripheral regions. Until the 1980s, innovations that were primarily aimed at increasing the well-being of a society and a particular community, appeared alongside with technical and natural science innovations. The peripheral settlements and their need for catching-up have come to the fore. One of the reasons for this lagging behind is the failure of the international product cycle concept for Vernon. According to Vernon's (1966) theory, the production of innovation-based products is constantly shifting to less developed and later developing countries (depending on resources, expertise and cost differences).

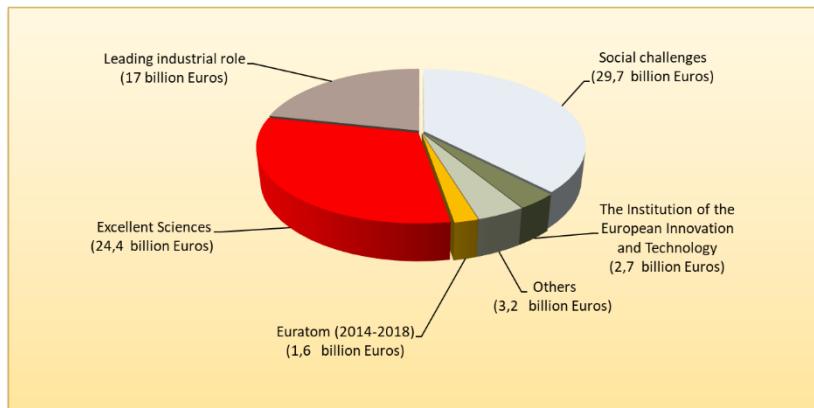
Nowadays, the majority of the production does not work that way. R&D costs and increased computer integration do not allow for cost savings in wages as much as in the 1950s and 1960s (at the time of the conception), so there is no relocation of production while it is moving along the product life cycle. This process determines the fixation of the development disparities, the reduction in (or, in some cases, the total absence of) the chances to catch up due to social disparities. The social disparities, the reduction in the chances to catch up, the lower level of the competitiveness of the peripheries, together and also separately, require a solution that should support the chances to catch up and the reduction in the disparities (Varga, 2017).

In this catching-up process, local innovative community-level ideas and social innovations played an important role. It should be emphasized that besides the process of social innovation, it is natural sciences, engineering and economic innovation that are also of great importance, because they are able to increase the welfare of the given community together. The relationship between technical and economic innovation as well as social innovation is described by Farkas as "the latter process means the boundary condition, the working space and the medium of the previous one" (Farkas, 1984, p. 11).

There is a correlation between the economic capacity of the given region and its ability of innovation (Kocziszky-Veresné Somosi, 2016). However, innovation (the search for new and innovative solutions) needs to be interpreted more broadly than before. In line with social changes, the European Union pays more attention to the context of social innovation than before.

There is a need for a paradigm shift; besides the R&D activities in technical and natural sciences, which require more and more investment, there is a need for new, innovative

solutions to address the social and economic problems of a given community (settlement, region).



**Figure 2** H2020 budget (2014-2020). Source: EU

### Process-oriented analysis of social innovation

García et al. (2015) identify social innovation as a broad-spectrum process the results of which are as follows:

- resources, services are provided to meet social needs,
- confidence builds up and activity supporting marginalized groups increases,
- social relations are changing, and transformation creates new governance measures.
- Bacon et al. (2008) identified three determining factors that explain the dynamics of the social innovation process:
  - willingness to change (based on fear of threat or opportunity for innovation),
  - efficient activation of (internal) resources available for change,
  - effective achievement of available (external) resources for the implementation of the transformation process.

Resources (people, money, skills, and networks) in this interpretation represent the resources that provide positive feedback from the community for renewal.

The main areas of the social innovation process (CRISES, 2012) are as follows:

- a product and/or manufacturing-based social innovation process (employee involvement and participation in organizational processes, matching of workers and workplace regulations),
- social innovation process related to consumers / users (involving consumers, introducing new services, encouraging responsible consumption),
- an enterprise-based social innovation process (cooperation, social responsibility),

- an area-based social innovation process (new forms of governance, community development).

Bund and authors (2015) emphasize that there are the following aspects in the focus of social innovation efforts:

- identification of unsatisfied social needs,
- understanding these needs,
- the responsibility of society,
- and combinations of these factors.

The basic criterion of the social innovation process is that it should be a novel initiative. This does not necessarily mean a completely new solution, but a novel combination of previously well-functioning routines that meet the occurring social needs, thus creating new skills. In the case of social needs, it is an extremely important criterion how urgent the need is and how sustainable the proposed solution is. Social innovation is not a linear but a spiral process due to feedback. The level of occurrence, the sector where the initiative can be observed, and the examination of further developing (generating) opportunities are basic questions to be answered.

Social innovation is a dynamic process. Feedback and temporal relevance are of key importance in certain activities of social innovation.

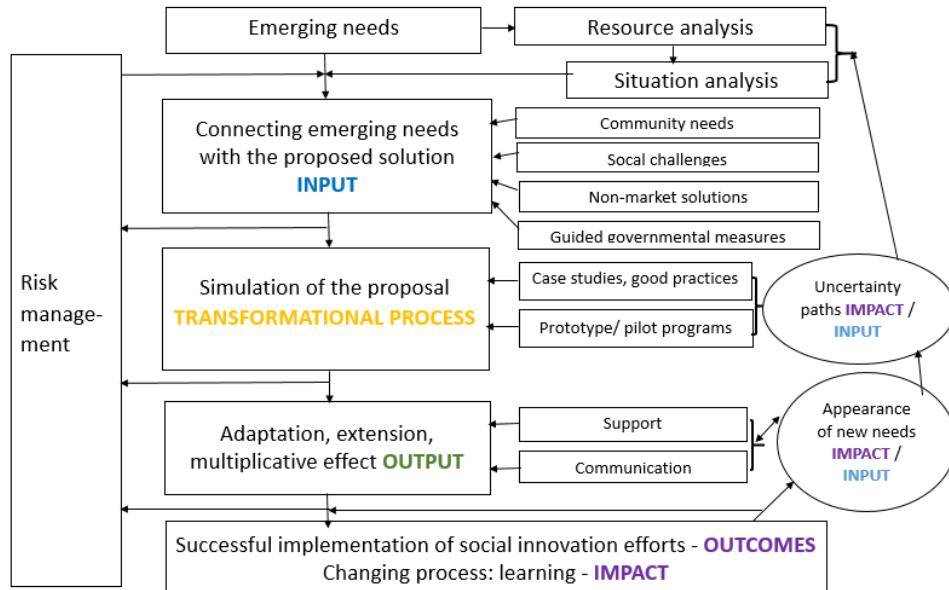


Figure 3 The dynamic process of social innovation. Source: own compilation. (Varga, based on 2018)

The initial step in the process of social innovation is the examination of emerging needs, the satisfaction of which requires prior resource analysis and related situation analysis. Connecting community needs, social challenges, non-market solutions and guided governmental measures, as well as novel responses to them, means the input factors in the social innovation process. Efforts are basically not market based solutions, but they are initiatives that also result in the renewal of the society that form the community in the long run. Risk management can also be seen as an input factor at this stage. The following step is to examine the possible and proposed solution with the help of the Falcon model, which involves the introduction of prototypes and/or pilot programs after examining case studies and good practices. This is the most uncertain phase of the social innovation process, which is constantly challenging those concerned. After practical compliance, social efforts become adaptable, then extension takes place and multiplicative effect appears. At this point in the process, the supportive atmosphere (resources, institutions, political and social framework conditions) and proper communication are important factors. At this stage of the process, either new needs can emerge or new efforts can be proposed to the community with the help of well-functioning communication channels. Successful implementation of the social initiative leads to a changing process (learning) as a result. During the process, it is necessary to consider and evaluate the risks, to develop strategies for their reduction or elimination. Following the successful implementation, new needs emerge that can be met by the socially innovative community along the above process. Therefore, social innovation is a dynamic process that results in social learning through feedback loops and constant risk assessment.

Social innovation efforts can be a proposed solution for meeting social needs and handling the challenges of peripheral regions. Social needs and challenges facing the community can be grouped in three ways:

Social		Economic		Political	
Needs	Challenge	Needs	Challenge	Needs	Challenge
involving citizens, social services (healthcare, education, etc.), mobility, community	emigration, ageing, disadvantaged groups, inequality between levels of education	security, stability, employment, sustainability, trust	housing conditions, unemployment, financial resources, expertise	awareness, mobilizing power, political participation	government transparency, independence of decisions, commitment

**Table 2** Social needs and challenges of peripheral regions. Source: own compilation

The lack of financial resources is a critical point in the feasibility of the social innovation process. If individual or community ideas provide new, innovative solutions for disadvantaged areas, more organizational and financial support is needed to implement the project. At the local level, the various programs of the European Union (LEADER, GINOP) provide support for economic development and innovation for municipalities with catching-up needs.

## Characteristics of the system supporting the development of social innovation

In our research, we have come to the conclusion that the phase involving the development of social innovation should be supported due to the huge amount of data to be processed, i.e. the introduction of a supporting system is needed. To set up the model, we first determined the aspects and conditions that can be applied to the input data and what we would like to achieve. In order to select the right system, we reviewed the needs hierarchy of social innovation, selected the proper aspects (e.g. inhibiting factors, organizations to be involved, potential implementers, etc.) and developed the settlement statistics database.

Our aim was to create a framework where huge amounts of data can be managed on the basis of different aspects. The data that are available for us include statistics, i.e. objective data, as well as the results of interviews, which can be considered subjective data, therefore we chose to use fuzzy logic.

The fuzzy system is able to manage several data types at a time and can be perfectly combined with decision trees, which is the basis of our model. Fuzzy applications have already appeared in medical biology, insurance risk assessment, and many other areas of life. In this regard, our approach to use them in generating social innovations is a novelty. Following fuzzy logic, other sub-symbolic artificial intelligent methods have emerged: primarily neural networks, evolutionary programs, genetic programs etc., which are often combined and are commonly known as soft computing. The advantage of the fuzzy control system is that the model can be set up directly by observing input-output pairs and can be installed by tuning the quasi-optimal control algorithm. The disadvantage is that such a model can only be approximate. After studying several neuro-fuzzy models, we chose the Falcon method, which is capable of learning both parameter and system rules. In the construction of Falcon's pre-loaded network, the fuzzy weights characterizing the input and output member functions are embedded in neutrons, therefore it has three hidden layers instead one.

In our study, the neuro-fuzzy model, i.e. the fuzzy logic controller based on neural network has a:

1st layer: (the input functions of the model) the area of the settlement; the number of inhabitants and their distribution by age; marital status; economic activity (workers, number of unemployed people); level of flat equipment, being the part of the sewerage or water supply system

2nd layer: whether the settlement has facilities for medical care and entertainment, such as cinema, library, museum etc.

The first step was the creation of a knowledge base, a database of existing good practices. It contains objects with their structures, fields, and attributes that are connected by fuzzy functions.

Certainly this database should constantly be updated with new good practices and statistical data. The good practices shown in the knowledge base need to be categorized, which in our case took place in line with:

- the form: technology, product, service
- the aim: enhancing the quality of life (according to a needs hierarchy)

- the level: mezo
- the way of financing: state, private, funded
- the innovator: civil organisation

The input functions of the model are the area of the settlement, the number and age distribution of the population, marital status, economic activity (workers, unemployed people, dependents), the level of equipment of the flats, agricultural area, forest. In the second round, we examined whether there are facilities for medical care and entertainment.

### **Case study – Social and economic challenges and solution in Mezőszemere**

Hereinafter we present a social innovation initiative in a structured way, which, in response to local challenges, enhances the well-being of the population, helps disadvantaged groups, and identifies the stages of the innovation process outlined above. This case as "good practice" is the part of our knowledge base. The establishment and operation of the oil plant in Mezőszemere can be identified as a social innovation effort.

Mezőszemere is a beneficiary settlement in terms of social, economic and infrastructural issues [Gov. Decree No.105/2015. (IV. 23.)]. It is located in Füzesabony district, which is also a region to be developed (i.e. it is in a beneficiary situation). A settlement that is considered to be a beneficiary area in terms of social, economic and infrastructural aspects, or is considered to have major unemployment, and is located in the district to be developed as defined by the Governmental Decree on the classification of beneficiary districts, will receive the same treatment as areas to be developed and will have an access to grants for development.

In the course of the analysis, the establishment of the oil plant in Szeged was classified as good practice. The basic purpose of presenting good practices is to identify the tools and methods that are more effective in achieving the set goals than previously known methods. Novel and constructive approaches, techniques that can contribute to the quality standards of a given organization, can also serve as an example for other organizations (Szabó-Nagy, 2014). Among the evaluation criteria for good practices were the following:

- innovativeness,
- possibility of success,
- sustainability,
- possibility of development,
- adaptability,
- possibility of documentation
- multiplicative effect
- the process of change.

Taking the above aspects into account, we have documented good practices on three main issues. The questions focused on general information, a descriptive presentation of the

practice and the reasons for good practices. This documentation principle has made it possible to fully analyze and judge the success of the exemplary practice.

The main activity of Saldo Sys Social Cooperative is to educate a healthy lifestyle among the disadvantaged young generation. The primary manifestation of their activities covers the organization of sports programs and leisure activities, their main area of activity is the settlements of the Northern Hungary region, Miskolc and its agglomeration. In order to provide the necessary resources, the Cooperative has decided to launch a business activity involving the production of cold pressed seed oil - in line with its original mission, involving disadvantaged people in employment, promoting a healthy lifestyle through the production and sales of healthy raw materials. The activity was launched with the support of the GINOP-5.1.3-16-2017-00017 "Promotion of Social Enterprises" program in a settlement called Mezőszemere in the district of Füzesabony, Hungary, in cooperation with the local government and institutions.

The municipality gave the co-operative a property in the form of a rental property, which, after renovation, became the venue of implementation. The program started with the involvement of 10 people, 6 out of which were recruited as new employees. In order to help disadvantaged workers to integrate into the economy, the Cooperative provided various training sessions for those concerned – in IT training, sales promotion and marketing communication.

The preparatory activities included the purchase and installation of the necessary equipment and machinery, training, and arranging the cooperation with business partners. The aim of forming a network was to involve organizations operating in the Northern Hungary region, this way improving the local economic activity, but due to the limited availability of special machinery, equipment and raw materials, the scope of stakeholders was extended nationwide.

The sales of the finished product take place through several channels. In the direct supply chain, the supplier of raw seeds is a company in Szarvas, whose main activities include the cultivation of oil seeds. Seed processing and oil production are carried out by the Saldo Sys Social Cooperative while the primary buyers of the finished products are a food wholesaler and an agricultural and food cooperative, so the products made by the Cooperative are used both for further sales and for the production of other products.

The Cooperative is trying to reach final consumers for direct sale by enhancing its marketing communication activities, so they are also represented at fairs and exhibitions, and they also organize product tasting events. Online presence also plays an important role – they promote the products by online advertising on their own website, as well as through offline channels, like brochures.

<b>General information</b>	<b>Name / Title</b>	Oil plant in Mezőszemere
	<b>Contacts</b>	Saldo Sys Social Cooperative
	<b>Objective</b>	Educating young people to lead a healthy life, employing disadvantaged workers
	<b>Target group</b>	The inhabitants of Mezőszemere (especially disadvantaged groups)
	<b>Target region</b>	Mezőszemere
	<b>Necessary human resources</b>	10 people
	<b>Financing</b>	Project funds, municipal support
	<b>Necessary infrastructure</b>	IT training, courses supporting sales promotion and marketing communication
<b>Description of practice</b>	<b>Short description/needs recognition</b>	Employing disadvantaged workers from the region, helping them integrate into social and economic life
	<b>Realization</b>	The finished product is sold through several channels, in the direct supply chain, the supplier of raw seeds is a company in Szarvas. Saldo Sys Social Cooperative carries out seed processing and oil production; while the primary buyer of the finished products is a food wholesaler and an agricultural and food cooperative, so the products made by the Cooperative are used both for further sales and for the production of other products.
	<b>Results, outcomes, future prospects</b>	10 employees (6 people are disadvantaged), IT training, sales promotion, marketing communication course, purchase and installation of machines and equipment necessary for implementation, carrying out the necessary trainings, and arranging cooperation with business partners.
<b>Problems and lessons learned</b>	The aim of the network was to involve organizations operating in the Northern Hungary region, improving local economic activity, but due to the limited availability of special machinery, equipment, and raw materials, the scope of stakeholders was extended nationwide.	

### Why is it good practice?

<b>Area-based approach</b>	Similar businesses in Northern Hungary are often engaged in creating jobs and helping disadvantaged people, while the economic and social integration of workers is slow. Social cooperatives need to generate the amount of revenue that allows the business to be maintained, so it is logical to put business activities at the forefront.
<b>A bottom-up approach</b>	The practice clearly focuses on local needs, involving the local population in the implementation.
<b>Partnership approach</b>	Self-government, Hatvani-Projekt Ltd.
<b>Innovation</b>	Socially innovative solutions based on real social dialogue and partnership have emerged, in which the partnership goes beyond the usual forms and engages in active brainstorming.
<b>Integrated approach</b>	The individual measures and development programs are closely related.
<b>Publicity / Networking</b>	Publication, website, thesis, fairs.
<b>Sustainability</b>	The project responds to real needs, adjusts to needs, and cooperates with the municipality.
<b>Transferability</b>	Local factors, barriers and priorities can be identified as important factors. Framework conditions for improving living conditions at the local level will result in catching-up. The identification of stakeholders in the process, the role of communication (informing), the planning of financial resources, attempts to change attitudes and institutional background are all of particular importance.

Table 3 Mezőszemere – Oil plant as good practice in social innovation. Source: own compilation. (based on Szabó-Nagy, 2014 and Varga, 2018)

Comparing the results of testing with the help of the developed model, we can conclude that the social innovations implemented in the examined settlements in the recent period are compatible, i.e. our system is capable of generating new social innovations based on its knowledge base.

### Conclusions

Social innovation factors are key factors in the the catching-up process of peripheral regions. While emphasizing the role of local and regional innovators the concept of social innovation deals with the novel initiatives based on the involvement of inhabitants.

In order to improve the well-being of the community, social innovation gives new answers to the everyday problems of the certain community, and as a means to respond to challenges results in a novel approach to handling regional disparities. In seed areas technical innovations mean solution for developing life quality, however, in disadvantaged peripheral regions it is necessary to take novel initiatives such as social innovations into account. Reducing regional disparities and enhancing regional competitiveness are important factors in the innovation efforts of settlements. In our opinion the starting point for examining social innovation is the precise formulation and answering of the questions that analyse the definition, its connection with technical innovation and the territorial characteristics. One of the possible ways of the conceptual clarification of social innovation is examining the implementation of good practices.

Modelling on the basis of neuro-fuzzy logic also determines further development opportunities. With the help of good practices and expertise, proposals can be made that lead to professional advisory activity following a cost/benefit analysis.

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## Industry Leader Premium

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### Abstract

The advantage of becoming an industry leader is widely studied. However, how can we measure it? This paper measures how much premium an industry leader has in its valuation through a P/E ratio. The findings suggest industry leaders have significantly higher P/E ratios by 0.65 than their peers. The analysis of earnings forecasts suggests this is not due to their high earnings growth potentials but from other sources. However, in stock recommendations, the premium is not recognised by analysts but interpreted as the sign of over-valuation. The paper contributes the new structure of a P/E ratio by identifying the industry leader premium.

**Keywords:** industry, leader, premium, price-earnings, valuation

### Introduction

Most companies strive to become the number one company in the industry and customers remember who they are. The advantages of becoming an industry leader are widely studied including the economies of scale, high bargaining power to suppliers and customers, customers' brand awareness and loyalty, and transition cost to other brands. Obviously, such advantages add value to an industry leader. How can we quantify this value? Do we even recognize it when valuing an industry leader? This paper addresses these questions from the perspective of shareholders (owners) using a price/earnings (P/E) ratio and measures a premium an industry leader has in its stock price.

In regard to a P/E ratio, there are three plausible but conflicting hypotheses. Firstly, as P/E ratios represent the earnings growth potentials of companies (Penman, 1996), small companies tend to have high earnings growth potentials and P/E ratios. Secondly, companies in the same industry tend to have the same P/E ratios as they also represent the degree of over/under-valuation of stock prices. Finally, industry leaders, companies with the largest market shares, tend to have high P/E ratios because they take advantage of premiums they have. The first two hypotheses imply there is no industry leader premium, while the third one indicates so. This paper investigates which hypothesis dominates and measures the industry leader premium if it exists.

The research starts with analysing the general trend of P/E ratios along company ranks and how the trend changes as companies are divided into large-three, large-medium and small

companies. Afterwards, the analyses of analyst earnings forecasts, target prices and recommendations are conducted to investigate how analysts consider industry leaders.

The main finding is all three hypotheses coexist in an industry. In general, smaller companies tend to have higher P/E ratios consistent with the first hypothesis. However, when companies are divided into large and small companies, the positive increase in P/E ratios appears to be due to a structural difference in P/E ratios between large and small companies and, within each group, the increase is minimal supporting the second hypothesis. When large companies are subdivided into the three largest and other large companies, the three largest companies have higher P/E ratios than other large companies both economically and statistically, supporting the industry leader premium hypothesis. Overall, the low P/E ratios of large companies mainly relate to other large companies and, in fact, the three largest companies have P/E ratios as high as small companies. The results indicate industry leaders have a premium of 0.65 of their P/E ratios compared to their peers. However, when analyst forecasts are examined, the industry leader premium is not recognised by analysts but instead regarded as the sign of over-valuation.

The paper contributes to the current knowledge of a P/E ratio by identifying the distinctive characteristics of industry leaders. Although the current understanding of a P/E ratio generally prevails, industry leaders experience higher P/E ratios than their peers due to the industry leader premium. The practical implication for analysts is to recognise the industry leader premium when valuing industry leaders before concluding that their high P/E ratios mean they are over-valued.

The paper proceeds in the following order: hypotheses and models are built up in a methodology part in section 2; data are explained in section 3; and section 4 explains findings, followed by conclusion in section 5.

## Methodology

The research first studies the general trend of P/E ratios along company ranks, followed by changes in trend when companies are divided into large-three, large-medium and small companies. Based on the market definition of an industry leader - a company with the largest market share - companies are ranked based on their sales. A company with the largest sales is considered an industry leader and ranks first, followed by a company with the second largest sales ranks second, and so on. Because the ranks of companies are changing year-on-year depending on their performances, the research conducts the cross-sectional analysis based on ranks, instead of the panel-data analysis based on companies.

The general trend of P/E ratios along ranks is measured by model (1) as,

$$P/E = \alpha + \beta_1 Rank + \gamma Leverage + \delta DivPayout + \varepsilon \quad (1)$$

where *Leverage* and *DivPayout* are added as control variables due to their impact on P/E ratios (R.S. Bower and D.H. Bower, 1969; Leibowitz, 2002; Malkiel, 1970).

Companies are afterwards divided equally into large and small companies and their P/E ratios are measured by model (2) as,

$$P/E = \alpha + \beta_1 Rank + \beta_2 Large + \gamma Leverage + \delta DivPayout + \varepsilon \quad (2)$$

where *Large* is a binomial variable of 1 if a company is in the large group, and 0 in the small group.

To measure the industry leader premium, large companies are subdivided into large-three (i.e., three largest) and large-medium companies (i.e., other large companies). Therefore, Model (3) is measured as,

$$P/E = \alpha + \beta_1 Rank + \beta_3 Large3 + \beta_4 LargeMed + \gamma Leverage + \delta DivPayout + \varepsilon \quad (3)$$

where *Large3* is a binomial variable of 1 if a company is one of the three largest companies, and 0 otherwise. *LargeMed* is also a binomial variable of 1 if a company is one of the other large companies, and 0 otherwise.

Model (4) is identical to model (3) only different in a baseline intercept. Whilst model (1) – (3) use small companies as a baseline intercept, model (4) uses large-medium companies as a base. The reason for the change is to examine the statistical significance of the industry leader premium directly between large-three and large-medium companies.

$$P/E = \alpha + \beta_1 Rank + \beta_3 Large3 + \beta_5 Small + \gamma Leverage + \delta DivPayout + \varepsilon \quad (4)$$

where *Small* is a binomial variable of 1 if a company is in the small group, and 0 otherwise.

For analyst forecasts, the same model (1) – (4) are used but replacing *P/E* with one-year ahead earnings forecasts, two-year ahead earnings forecasts, target prices and recommendations, respectively. Moreover, the two control variables are omitted because the analysis is a forecast analysis of a dependent variable when ranks change, instead of a causality analysis.

Three hypotheses are tested in this paper. Firstly, if a *P/E* ratio is an indicator of earnings growth potential as the current knowledge suggests, smaller companies would have higher earnings growth potentials and therefore higher *P/E* ratios.

*H1: P/E ratios increase as ranks increase.*

On the other hand, the second hypothesis views a *P/E* ratio from a valuation perspective: identical companies should have the identical *P/E* ratios, and similar companies should have similar *P/E* ratios. As peer companies are often found from the same industry, the second hypothesis suggests companies in the same industry would have similar or same *P/E* ratios, especially between similar companies, otherwise arbitrageurs will take advantage of the deviations equalising the levels.

*H2: P/E ratios stay the same notwithstanding the increase in ranks especially between similar ranks.*

Finally, the third hypothesis indicates industry leaders enjoy premiums that other companies do not, such as the economies of scale functioning as the entry barrier, high bargaining power and customers' brand awareness. Although such benefits may not directly link to their future earnings, they clearly add value as either a protection mechanism against competition or a building block for future growth. The third hypothesis suggests such additional benefits would be reflected in company valuation as premiums and, therefore, industry leaders would have higher *P/E* ratios than their peers.

*H3: P/E ratios of industry leaders are higher than those of their peers.*

## Data

The research studies European companies covered by Thomson One Banker between 2002 and 2011. All accounting data, except the GICS sub-industry classification, are obtained from Datastream (Worldscope). The GICS sub-industry classification is obtained from Thomson One Banker due to the unavailability in Datastream. Analyst forecasts (i.e., current earnings-per-share, one/two-year ahead earnings forecasts, target prices and recommendations) are acquired from I/B/E/S. For the selection of industry classification, I have considered ICB, ISIC, SIC, GICS and I/B/E/S SIG code. Visual inspection confirms the GICS sub-industry classification is the most appropriate to identify homogeneous companies and, therefore, industry classification in this paper is based on the GICS sub-industry classification.

Variables are calculated as follows. Rank is measured based on company's market share, calculated as company's sales divided by the total sales of the industry in which a company belongs in the year. A company with the largest market share ranks first and the second largest ranks second, and so on. Leverage is measured as total debt to equity. For earnings forecasts and target prices, relative forecasts are used instead of absolute forecasts to eliminate the scale effect. Therefore, relative one-year ahead earnings forecasts are measured as one-year ahead earnings forecasts (EPS1) divided by current earnings (EPS). The same applies for two-year ahead earnings forecasts. Relative target prices are calculated as target prices divided by current prices. Recommendations scale from 1 (strong buy) through 3 (hold) to 5 (strong sell).

One important factor in dealing with P/E ratios and forecast variables is how to handle outliers. Two stage measures are implemented to mitigate the impact of outliers. In the variable level, P/E ratios of top and bottom 5% are truncated to remove outliers. For one-year ahead earnings forecasts, EPS1 and EPS are each truncated at top and bottom 1%, followed by a further top and bottom 1% truncation in relative earnings forecasts (EPS1/EPS). The same applies for two-year ahead earnings forecasts and target prices. In the general level, median is used to average variables instead of mean.

10 years' figures are averaged using median and these averaged variables are used in the analysis. Although the averaging appears to be a loss of data, this research is based on the cross-sectional analysis that does not require the panel-data set. This is because the research is based on the ranks of companies, not companies themselves, and the ranks of companies change year-on-year depending on companies' performances. Instead of conducting 10 separate cross-sectional analyses for each year, an industry cross-sectional analysis using the averaged variables is performed to mitigate the impact of outliers in each year. I require there are at least 20 companies in an industry to make a meaningful interpretation from the analysis. As a result, the research covers 67 industries with 69 companies on average in an industry.

## Results

### Descriptive Statistics

The different numbers of observations are used for the analyses of P/E ratios, earnings forecasts, target prices and recommendations to preserve the maximum numbers of data. This is because the purpose of the research is to draw a general conclusion of the industry leader premium given available data rather than to design a forecasting model using all variables. Descriptive statistics are explained in table 1.

<Table 1 here>

Sample is categorised in the GICS group-level, instead of the sub-industry level, due to the limitation in space. For the analysis of P/E ratios, 26,315 observations are used, followed by 21,376 observations for recommendations, 13,987 for target prices and 13,057 for earnings forecasts. The biggest group is capital goods accounting for 19% of observations. The capital goods group includes industries of aerospace and defence, building products, construction and engineering, electrical components and equipment, industrial machinery, and trading companies and distributors. The numbers of companies in industries (not reported) range from 20 for paper products to 167 for industrial machinery. The average number of companies in an industry is 69. As widely reported in the literature of analyst forecasts, analyst recommendations have bias toward a buy signal with 2.36 on average, considering the scale of 1 (strong buy), 3 (hold) and 5 (strong sell). Target prices and earnings forecasts also have upward bias as their means are above 1 in the relative measures (Chan et al., 2003; Dugar and Nathan, 1995; Hunton and McEwen, 1997; Lin and McNichols, 1998; McNichols and O'Brien, 1997).

### Industry Leader Premium

Panel A of table 2 describes how P/E ratios change along ranks. Model 1 supports the current knowledge of P/E ratios and the hypothesis 1 that smaller companies tend to have higher P/E ratios in general (Cheng, 2005; Frankel and Lee, 1998). However, when companies are divided into large and small companies in model 2, large companies have structurally lower P/E ratios than small companies. Interestingly, the positive slope observed in model 1 disappears in model 2 indicating the positive trend is mainly due to a structural difference in P/E ratios between the two groups and, within each group, the increase is minimal. Model 3 further divides large companies into large-three and large-medium companies. Although large-medium companies have significantly lower P/E ratios than small companies, the P/E ratios of large-three companies are not significantly different from those of small companies. This is in contrast to the general knowledge that larger companies tend to have lower P/E ratios. Although the coefficient on rank in model 3 is statistically significant, I believe its economic significance is limited. For example, given the fact that there are 69 companies on average in an industry, the difference of P/E ratios between the largest and smallest company would become only 0.21. This suggests P/E ratios are determined more by in which group companies belong than their ranks. Model 4 is identical to model 3 only changing a baseline intercept from small companies to large-medium companies. The result supports the industry leader premium hypothesis that industry leaders have significantly higher P/E ratios by 0.65 than their peers.

Panel B is a supplementary analysis to examine the robustness of the results in panel A by controlling the earnings growth potentials of companies. The result of model 1 indicates the generally positive slope observed in panel A is indeed due to the high earnings growth potentials of small companies. When growth potentials are controlled, the positive slope disappears and in fact turns into the negative. The negative effect of large companies observed in model 2 of panel A also disappears, suggesting there is no significant difference in P/E ratios between large and small companies when their earnings potentials are controlled. However, the largest three companies still have significantly high P/E ratios and, when earnings potentials are controlled, their P/E ratios are even higher than those of small companies.

Model 4 suggests industry leaders have significantly higher P/E ratios by 0.75 compared to their peers when earnings potentials are controlled, indicating the high P/E ratios of industry leaders are not due to their high earnings growth potentials but from other sources. Figure 1, 2 and 3 depict the result of model 1, 2 and 3 of panel A, respectively. Figure 1 and 2 describe what we currently know about P/E ratios and figure 3 modifies that perspective by identifying the industry leader premium.

<Table 2 here>

<Figure 1, 2 & 3 here>

To examine how analysts consider industry leaders, table 3 reports the results of relative earnings forecasts along ranks. In panel A, for one-year ahead earnings forecasts, model 1 indicates smaller companies generally have higher earnings growth potentials. When the sample is divided into two groups, large companies have significantly lower earnings growth potentials than small companies. Interestingly, large-three companies have even lower earnings growth potentials than large-medium companies. Similar results are observed for two-year ahead earnings forecasts in panel B, except difference in earnings forecasts between large-three and large-medium companies is insignificant. The results support the findings in table 2 that the significantly higher P/E ratios of industry leaders are not from their high earnings growth potentials.

<Table 3 here>

Table 4 illustrates the results of relative target prices. Consistent with earnings forecasts, smaller companies tend to have higher target prices. When the sample is divided into two groups in model 2, large companies have significantly lower target prices than small companies. The difference between large-three and large-medium companies is insignificant, indicating analysts do not treat them separately in forecasting their target prices.

<Table 4 here>

The results of recommendations in table 5 are expected to be similar to those of target prices because they are the two different formats of the same opinion. Model 1 and 2 indicate large companies are more likely to receive sell recommendations than small companies. When large companies are further divided, large-three companies have significantly higher tendency to receive sell recommendations than their peers. Overall, the results suggest analysts do not differentiate industry leaders in their forecasting but follow the general perception that large companies are more mature than they have lower earnings growth potentials, followed by more negative outlook in their stock performances.

<Table 5 here>

Why does a discrepancy occur between the results of P/E ratios and analyst forecasts? An exact answer is difficult to know. However, I suspect this is due to either analysts recommend shares only based on their earnings growth potentials (Abarbanell and Bushee, 1997; Elliot et al., 1995; Loh and Mian, 2006) or analysts interpret the high P/E ratios of industry leaders as they are over-valued. In either case, the findings suggest the industry leader premium, observed in the market, is not recognised by analysts.

## Conclusion

What are the benefits of being an industry leader? This research aims to answer this question by taking the perspective of shareholders and measure how much premium an industry leader has in its valuation. In regard to a P/E ratio, there are three plausible but conflicting hypotheses. The first hypothesis suggests a P/E ratio is an indicator of earnings growth potential and, therefore, smaller companies tend to have higher P/E ratios. The second hypothesis suggests a P/E ratio is an indicator of over/under-valuation and, therefore, companies in the same industry would have similar or same P/E ratios. These two hypotheses represent the current knowledge of a P/E ratio. The third hypothesis suggests industry leaders would have higher P/E ratios than their peers due to premiums they enjoy.

The findings indicate all three hypotheses coexist in an industry. In general, hypothesis 1 prevails. However, when companies are divided into different groups, hypothesis 2 exists within each group. Between the three largest and other large companies, the three largest companies have significantly higher P/E ratios than their peers, indicating the industry leader premium. The study of earnings forecasts suggests this is not due to their high earnings growth potentials but from other sources. However, the results of target prices and recommendations demonstrate that analysts do not know or recognise the industry leader premium yet and interpret their high P/E ratios as the sign of over-valuation.

The paper contributes new knowledge to the behaviour of a P/E ratio. By identifying the industry leader premium, the research discovers the new structure of a P/E ratio, figure 3, from the current understanding of figure 1 and 2. The practical implication for analysts is to recognise the industry leader premium before concluding that their high P/E ratios mean they are over-valued.

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**TABLE 1****DESCRIPTIVE STATISTICS**

Sample is displayed in the GICS group level instead of the sub-industry level. 22 groups and 67 sub-industries are covered in the research. The different numbers of observations are used for the analyses of P/E ratios, recommendations, target prices and earnings forecasts to draw a general conclusion from maximum available data. For the analyses of target prices and earnings forecasts, relative forecasts are used instead of absolute forecasts to eliminate the scale effect. EPS represents current earnings-per-share, EPS1 is one-year ahead earnings-per-share forecasts and EPS2 is two-year ahead earnings-per-share forecasts.

Group	Observations	Frequency	Companies	No.	Market Value	Sales	P/E	Recommenda <sup>tion</sup> (5: strong / sell; 1: strong buy)	Targ et Price / Curr ent Price	EPS 1/ EPS	EPS 2/ EPS
Energy	645	2%	29	2,602	1,679	18.39	2.22		0.96	1.26	1.65

Materials	1,702	6%	33	3,34 6	4,44 2	17.2 6	2.40		1.27	1.31	1.54
Capital Goods	5,060	19%	104	2,19 5	3,59 4	17.2 2	2.37		1.28	1.24	1.50
Commercial & Professional Services	1,365	5%	34	649	873	19.6 1	2.13		1.32	1.27	1.58
Transportation	277	1%	38	5,05 2	9,11 1	14.9 1	2.46		0.98	1.28	1.67
Automobiles & Components	292	1%	34	673	1,56 1	16.6 0	2.37		1.28		
Consumer Durables & Apparel	2,235	8%	36	1,36 9	1,25 1	19.8 1	2.35		1.29	1.28	1.56
Media	1,144	4%	49	1,08 5	785	22.1 3	2.34		1.30	1.28	1.57
Retailing	203	1%	25	353	1,00 2	20.9 2					
Food Staples & Retailing	241	1%	24	4,03 3	10,1 76	18.4 5	2.55		1.16	1.13	1.32
Food, Beverage & Tobacco	1,851	7%	82	3,20 3	2,82 5	19.0 7	2.43		1.24	1.24	1.46
Household & Personal Products	591	2%	35	3,77 2	1,64 6	22.9 3	2.32		1.19	1.30	1.75
Pharmaceuticals, Biotechnology & Life Sciences	439	2%	51	38,1 28	14,4 02	21.6 7	2.28		1.47	1.19	1.42

Banks	1,906	7%	101	17,6 68	12,7 41	15.5 1	2.77	1.20	1.13	1.33
Diversified Financials	1,907	7%	91	1,24 6	766	19.5 4	2.27	1.38	1.21	1.44
Insurance	287	1%	30	9,40 6	18,7 31	16.0 9	2.49	1.20	1.26	1.46
Real Estate	1,692	6%	76	870	223	19.5 2	2.39	1.28	1.11	1.22
Software & Services	2,214	8%	94	577	438	22.3 0	2.26	1.35	1.38	1.87
Technology Hardware & Equipment	1,094	4%	53	4,46 7	2,52 1	20.5 2	2.40	1.26	1.35	1.76
Semiconductors & Semiconductors or Equipment	189	1%	27	1,54 6	617	25.5 3	2.44	1.21	1.54	2.38
Telecommunication Services	312	1%	37	60,6 41	39,9 33	17.7 8	2.45	1.23	1.20	1.47
Utilities	741	3%	30	14,0 82	13,6 64	19.4 4	2.42	1.34	1.12	1.28
Mean	2,210	5%	69	4,83 5	4,08 8	19.0 2	2.36	1.28	1.26	1.55
N	26,315	100%		26,3 15	26,3 15	26,3 15	21,376	13,9 87	13,0 57	13,0 57

**TABLE 2**  
**P/E RATIOS OF INDUSTRY LEADERS**

The industry leader premium is measured as difference between the P/E ratios of the three largest companies and their peers. Model 1 represents the general trend of P/E ratios along ranks. Model 2 separates the sample equally into large and small companies. Model 3 further divides large companies into the three largest and other large companies. Model 4 is identical

to model 3 except a baseline intercept. Model 4 uses large-medium companies as a base intercept, instead of small companies, to measure the significance of the industry leader premium directly. A company with the largest sales ranks first, followed by the second largest ranks second, and so on. Panel B is a supplementary analysis controlling the earnings growth potentials of companies to examine the robustness of the results in panel A. \*, \*\* and \*\*\* represent significance at 10%, 5% and 1% level, respectively.

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### Panel A

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	Model 1		Model 2		Model 3		Model 4	
Intercept	16.090	***	16.629	***	16.561	***	15.845	***
	(0.081)		(0.102)		(0.103)		(0.084)	
Rank	0.007	***	0.001		0.003	**	0.003	**
	(0.001)		(0.001)		(0.001)		(0.001)	
Large			-0.680	***				
			(0.079)					
Large3					-0.068		0.649	***
					(0.135)		(0.117)	
LargeMed					-0.717	***		
					(0.079)			
Small							0.717	***
							(0.079)	
Leverage	-0.005	***	-0.005	***	-0.005	***	-0.005	***
	(0.000)		(0.000)		(0.000)		(0.000)	
DivPayout	-0.008	***	-0.007	***	-0.007	***	-0.007	***
	(0.002)		(0.002)		(0.002)		(0.002)	
R <sup>2</sup>	0.026		0.028		0.029		0.029	
N	26,315		26,315		26,315		26,315	

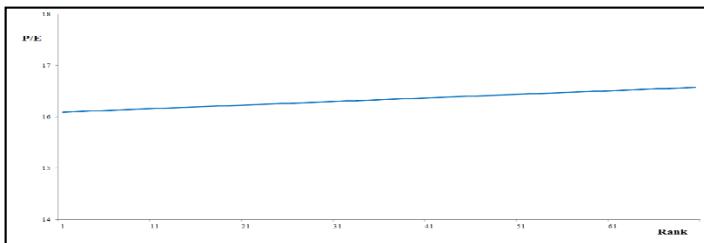
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## Panel B

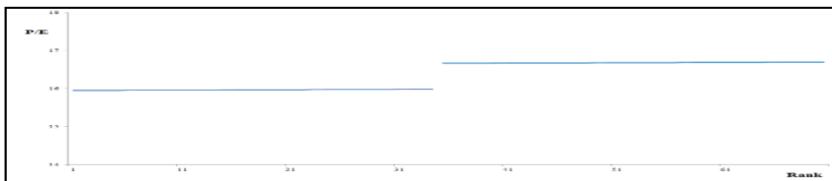
	Model 1		Model 2		Model 3		Model 4	
Intercept	14.242	***	14.360	***	14.165	***	14.025	***
	(0.260)		(0.282)		(0.283)		(0.261)	
Rank	-0.010	***	-0.011	***	-0.007	***	-0.007	***
	(0.002)		(0.002)		(0.002)		(0.002)	
Large			-0.117					
			(0.108)					
Large3					0.611	***	0.752	***
					(0.154)		(0.114)	
LargeMed					-0.141			
					(0.108)			
Small							0.141	
							(0.108)	
Leverage	-0.005	***	-0.005	***	-0.005	***	-0.005	***
	(0.000)		(0.000)		(0.000)		(0.000)	
DivPayout	0.004		0.004	*	0.004		0.004	
	(0.003)		(0.003)		(0.003)		(0.003)	
EPS1/EPS	-4.309	***	-4.311	***	-4.256	***	-4.256	***
	(0.342)		(0.342)		(0.342)		(0.342)	
EPS2/EPS	5.017	***	5.008	***	5.001	***	5.001	***
	(0.226)		(0.226)		(0.225)		(0.225)	
R <sup>2</sup>	0.080		0.080		0.083		0.083	
N	13,488		13,488		13,488		13,488	

**FIGURE 1**

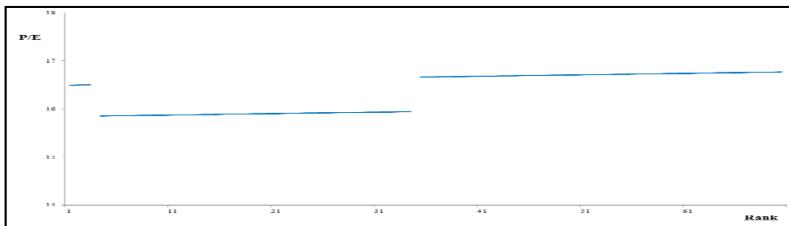
The result of model 1 of panel A in table 2. It represents the general trend of P/E ratios along ranks. A higher rank means a smaller company.

**FIGURE 2**

The result of model 2 of panel A in table 2. It represents the structure of P/E ratios when companies are equally divided into large and small companies. A higher rank means a smaller company.

**FIGURE 3**

The result of model 3 and 4 of panel A in table 2. It represents the structure of P/E ratios when large companies are further divided into the three largest and other large companies. A higher rank means a smaller company.

**TABLE 3**

### EARNINGS FORECASTS OF INDUSTRY LEADERS

Panel A and B measure the impact of ranks on one- and two-year ahead earnings forecasts, respectively. Earnings forecasts in a dependent variable are relative earnings forecasts measured as EPS forecasts divided by current EPS. Model 1 represents the general trend of earnings forecasts along ranks. Model 2 separates the sample equally into large and small companies. Model 3 further divides large companies into the three largest and other large companies. Model 4 is identical to model 3 except a baseline intercept. Model 4 uses large-medium companies as a base intercept, instead of small companies, to measure the significance for industry leaders directly. \*, \*\* and \*\*\* represent significance at 10%, 5% and 1% level, respectively.

## Panel A: One-Year Ahead Earnings Forecast

	Model 1		Model 2		Model 3		Model 4	
Intercept	1.106	***	1.124	***	1.127	***	1.109	***
	(0.003)		(0.005)		(0.005)		(0.003)	
Rank	0.001	***	0.000	***	0.000	**	0.000	**
	(0.000)		(0.000)		(0.000)		(0.000)	
Large			-0.018	***				
			(0.005)					
Large3					-0.032	***	-0.014	**
					(0.007)		(0.006)	
LargeMed					-0.017	***		
					(0.005)			
Small							0.017	***
							(0.005)	
R <sup>2</sup>	0.003		0.004		0.005		0.005	
N	13,057		13,057		13,057		13,057	

## Panel B: Two-Year Ahead Earnings Forecast

	Model 1		Model 2		Model 3		Model 4	
Intercept	1.266	***	1.305	***	1.308	***	1.269	***
	(0.004)		(0.008)		(0.008)		(0.005)	
Rank	0.002	***	0.001	***	0.001	***	0.001	***
	(0.000)		(0.000)		(0.000)		(0.000)	
Large			-0.040	***				
			(0.007)					

Large3		-0.054	***	-0.015
		(0.011)		(0.009)
LargeMed		-0.039	***	
		(0.007)		
Small			0.039	***
			(0.007)	
R <sup>2</sup>	0.011	0.014	0.014	0.014
N	13,057	13,057	13,057	13,057

**TABLE 4****TARGET PRICES OF INDUSTRY LEADERS**

Target prices in a dependent variable are relative target prices measured as target prices divided by current prices. Model 1 represents the general trend of target prices along ranks. Model 2 separates the sample equally into large and small companies. Model 3 further divides large companies into the three largest and other large companies. Model 4 is identical to model 3 except a baseline intercept. Model 4 uses large-medium companies as a base intercept, instead of small companies, to measure the significance for industry leaders directly. \*, \*\* and \*\*\* represent significance at 10%, 5% and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4	
Intercept	1.104	***	1.223	***	1.222	***	1.097	***
	(0.004)		(0.007)		(0.007)		(0.004)	
Rank	0.004	***	0.002	***	0.002	***	0.002	***
	(0.000)		(0.000)		(0.000)		(0.000)	
Large			-0.125	***				
			(0.006)					
Large3					-0.123	***	0.002	
					(0.010)		(0.008)	
LargeMed					-0.125	***		
					(0.006)			

Small			0.125	***
			(0.006)	
R <sup>2</sup>	0.067	0.091	0.091	0.091
N	13,987	13,987	13,987	13,987

**TABLE 5**  
**RECOMMENDATIONS OF INDUSTRY LEADERS**

Recommendations scale from 1 (strong buy) through 3 (hold) to 5 (strong sell). Model 1 represents the general trend of recommendations along ranks. Model 2 separates the sample equally into large and small companies. Model 3 further divides large companies into the three largest and other large companies. Model 4 is identical to model 3 except a baseline intercept. Model 4 uses large-medium companies as a base intercept, instead of small companies, to measure the significance for industry leaders directly. \*, \*\* and \*\*\* represent significance at 10%, 5% and 1% level, respectively.

	Model 1		Model 2		Model 3		Model 4	
Intercept	2.419	***	2.169	***	2.163	***	2.425	***
	(0.005)		(0.009)		(0.009)		(0.005)	
Rank	-0.005	***	-0.002	***	-0.001	***	-0.001	***
	(0.000)		(0.000)		(0.000)		(0.000)	
Large			0.263	***				
			(0.008)					
Large3					0.293	***	0.032	***
					(0.013)		(0.011)	
LargeMed					0.261	***		
					(0.008)			
Small							-0.261	***
							(0.008)	
R <sup>2</sup>	0.055		0.103		0.104		0.104	

N 21,376

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21,376

21,376

21,376

## **Implementation of TQM in Manufacturing Industries of Developing Countries - Case Study: Albanian Companies**

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**Eralda XHAFKA**

**Ilo Bodı**

### **Abstract**

Manufacturing industry in Albania has been grown significantly over the last decades due to increased public demand, Government's initiatives, and the investors increased interest in the manufacturing sector. Unfortunately, quality of product is still an important issue for the locally produced goods. Only a few manufacturers are producing high quality products with higher customer satisfaction. Many of them are holding quality certificates but a few has reached a stage of product development where they are able to apply modern quality principles and techniques effectively. Research on product quality improvement shows that meeting customer satisfaction, increasing profits and reducing losses to a minimum level can be attained through the application of modern quality philosophies and principles such as Total Quality Management (TQM). Understanding the tools and techniques of TQM is considered to be significant in order to get useful results. A better understanding is required to investigate the current status of TQM implementation. This research article presents a survey on current quality control practices within the manufacturing industries in Albania to assess the potentiality of implementing TQM technique and principles in order to improve the customer satisfactions and market share.

**Keywords:** Quality, Total Quality Management, Albanian Manufacturing Industry

### **1. Introduction**

The proper application of quality management systems in all productive stages of industrial products is very important in the industrial development. Many companies promote quality as the central customer value and consider it to be a critical success factor for achieving competitiveness [1]. Because of huge competition, market globalization, and public demand, it has become necessary for managers, engineers, crews, and other employees to know not only the methods of controlling the quality of products but also to know how to improve quality continuously. Manufacturing industry in Albania has been grown significantly over the last decade due to the increased level of investors in manufacturing sector. There are more than 1,900 manufacturing companies established in Albania [2]. Many of these are small to medium-sized companies. Huge expenditure of time, money, and resources (both human and material) are wasted each year because of inefficient or non-existent quality management systems (QMS). Implementation of Total quality management (TQM) system within the Albanian manufacturing companies might result in better customer satisfaction, increase in

profit and decrease failure of the companies. This may result in improving productivity, as well as enhancing competitiveness in national and international markets.

Implementation of TQM is a management decision that requires many considerations such as company's operations, strategy, staff and customers. It has been shown that a commitment to TQM is essential for industry's top management to floor level employees to compete against competitors. There is a need for properly documented study and project survey on how TQM can be properly implemented in manufacturing companies. Understanding the tools and techniques of TQM is considered to be significant in order to get useful results. A better understanding is required to investigate the current status of TQM implementation.

The objective of this study is to investigate the current level of implementation, prospects and barriers in implementing TQM in manufacturing industries in Albania. A survey questionnaire was developed and distributed to different manufacturing companies.

This research article presents the survey result on current quality control practices within the manufacturing companies in the industrial part of Tirana. Section 1 of this paper discusses the significance of implementation total quality management system in the Albanian manufacturing Industry. Section 2 defines the TQM and a very brief literature review on TQM in order to justify its importance. Investigation methodology is described in the Section 3. Section 4 analyses and discusses the survey results. Finally, the contributions of this paper and the future works are described in the Section 5

## **2. TOTAL QUALITY MANAGEMENT**

Definition and Concept of TQM have been explained over the past years. TQM is a way of thinking that turns out to be a centre piece of an organisation. It is defined as a management tool, philosophy and a set of principles which guides every member of organisation who involved in the continuous improvement process to meet customer satisfaction. The TQM concept involves all the members of the organisation in decision making because their participation and contribution is considered as a critical role in all business activities for providing services to customers with high quality products [3]. However, there is no ordinary method of how TQM should be implemented. The organisation is dedicated to customer satisfaction through continuous improvement that varies from organisation to organisation and also from country to country. This process has common principles that can be applied to secure market share, increase profits and reduce costs [4]. In brief, TQM is the management of quality throughout all members of organisation. The organisation must satisfy internal and external customer needs and then use strategic planning including all functional areas to achieve strategic goals.

The key idea of TQM is that quality control must be an integral part of the production process. It includes continuous improvement to remove waste, doing things right first time (removing the need for inspection), and quantitative measurement to analyse deviations from quality. The purpose is to reduce costs by preventing unnecessary rework jobs and to conform customer needs by satisfying expectations of high quality [5]; [6].

Development of TQM Culture in the Organisation Culture has a strong influence on people's behaviour and is not easy to change. It includes beliefs, values and premises which underline

and govern personal behaviour [7]. The successful implementation of TQM, requires a change in organisational culture to create the quality culture. The adaptation of TQM principle in the organisation begins with an effort by management to make the culture supportive since management is capable of changing and creating a culture for successful TQM implementation. It can be done in two ways: the organisation may choose an approach that fits the existing organisational culture, or manage a cultural change. It is important to integrate the quality principles and techniques into the organisation culture which is capable of contributing in continuous and consistent improvement in the organisation. TQM dictates that the culture of an organisation can be changed by developing and improving all aspects of customers and supplier's relationship and assessing them on a regular basis, practicing teamwork at all levels organisation, involving all employees at all stages of the improvement process, educating and training the employees to change their attitudes and behaviours, and improve their skills, recognising that change is continuous and must be embedded in the organisation culture [8].

A cultural change needs commitment from the leaders and all other participants and may create a cooperative teamwork at all levels in an organisation. It is necessary for top management to ensure the participation of the employees in quality improvement process, and to develop a quality culture by changing perception and attitudes towards quality [9].

Need for TQM Implementation in Albanian Industry Research studies suggested that TQM implementation can improve organisations competitive abilities and provide strategic advantages in the market and adoption of TQM practices can allow organisations to compete globally [10]; [11]; [12]. Raegan [13] showed that a 90% improvement rate in workers relations, operating procedures, customer satisfaction, and financial performance can be accomplished through the implementation of TQM system.

Although the Albanian manufacturing industry has been grown significantly over the last ten years, the quality of the most of the products have not been improved with the same pace. This results in low customer satisfaction (less reliable product with high costs) and loss in both local and global level competitions. To overcome such challenges in the Albanian manufacturing industries, it is important to adopt proper modern quality control and management technique and philosophies such as Total quality management. In the long run, a substantial improvement is expected to be achieved if they implemented TQM properly.

### **3. SURVEY METHODOLOGY**

The objective of this study was to investigate the level of implementation of TQM in manufacturing companies in Albania. Many of these are small to medium-sized companies. It was not possible to investigate all the companies due to time and cost constraints. So, this study chooses a number of medium to large size manufacturing companies in the industrial area of Tirana.

The first part of the questionnaire was used to gather general information about respondents such as company and personnel details business type etc. The second part of the questionnaire deals with the concepts of TQM. These are: leadership; supplier quality management; vision and plan statement; evaluation; process control and improvement; product design; quality system improvement; employee participation; recognition and reward; education and training, and customer focus. The questionnaire uses a multiple points Likert scale - the respondent were allowed to select among a range of alternatives along pre-specified

continuum such as strongly agree, partially agree, disagree, strongly disagree, and I don't know.

### **3.1 Data Collection**

A list of 100 manufacturing companies in the industrial region of Albania obtained from the Chamber of Commerce and Industry were chosen. About 100 manufacturing companies, those who were applying to quality programs in their business were selected initially in the study. Out of the 100 manufacturing industries 76 (76%) responded. About 12 responses were excluded due to unreliable and incomplete data.

## **4. DATA ANALYSIS AND RESEARCH FINDINGS**

The first part of the survey presents general information about the participants of this survey. The second part of the questionnaire exhibits statements which related to TQM implementation. The analysis of Survey is described in as follows:

### **Part One: General Information**

A percent wise analysis shows that among the respondent, 28.3 % were top management level personnel, 60 % were medium level management and 11.7 % were first line management or shop floor level personnel. The investigation also found that 70 % of organisations have employees ranges from 200- 1000, 18.3 % of the organisation have workforce ranging from 1000 to 2000 and 11.7% have work force ranging from 50 to 200.

91.7% of the respondents indicated that quality managers are responsible for quality applications whereas 8.3 % reported that logistic managers are responsible for quality control. Concerning the size of the served customers/ users, it was identified that 45.8 % of the organizations served between 201-1000 customers, whereas 39 % of the organizations served 1001-5000 customers and 15.3 % of the organizations served ranges from 20-200 customers. This implies that most of the organisations (84.8 %) serve medium to a large number of customers. The study also found that 47 of organisations were more than 11 years old, whereas 5 organisations were in the business between 6-10 years. This implies that most of the responded organisations have a good experience in managing quality problems and issues. The survey found that 61.7% of the organizations have suppliers number ranging from 21-100, whereas in 36.7% have suppliers between 5 and 20. It is seen that most organizations were interested to use a relatively large number of supplier to create a competition among the suppliers with a view to receive quality supplies.

The respondents were asked whether they had business partnership or not. It was noticed that 48.3% of the organizations in this study have partnership with regional partners, whereas 46.7% they have partnership with international partners, and only 5% they have no partnership. The respondents were asked whether they implement any type of quality tools in the organisation. The outcome showed that 95% of respondents were implementing ISO 9001, whereas 3.3% were considering for implementation of Total Quality Management, and only 1.7% were implementing other systems.

This implies that most of Albanian manufacturing companies are interested only in ISO 9000 system for their business.

### **Part Two: TQM Statements**

The respondents were asked in the second part of survey to what extend they agree to the TQM statements. Most of the respondents stated that top management strongly encourages employee involvement in quality management activities (68.3 % of respondents strongly agree whereas 28.3% partially agree, and 2.3% were disagree). It can be seen from these results, managements were conscious about the quality improvement through employee's involvement in quality management activities. Furthermore, the results demonstrated that top management can play a key role in implementing TQM in the organisation. A total of 50 % of the respondents were strongly agreed that top management arrange adequate resources for employee's education and training, while 46.7% partially agree and 1.7% disagree and only 1.7% were strongly disagree with the statement. This implies that top managements initiative for employee education and training is just but not adequate and need more to increase the awareness and knowledge of quality conception among the employees towards the achievement of high class quality. The respondents were asked about the importance of establishing long term cooperative relation with suppliers. 46.7% of them indicated that they strongly agree whereas 45% were partially agreed, and 8.3% were disagreeing to keep long term cooperative relationship with the supplier. This result implies that only few organisations have positive responses about the establishment of long term cooperative relation with suppliers.

The respondents were asked whether the organization regularly conducts supplier quality audit, 43.3% of them agreed strongly, 35% were partially, 6.7% were disagree, and 13.3% were strongly disagree with this statement and only 1.7% do not know actually. This indicates that only a moderate number of the organisation conduct supplier quality audit.

It was observed that inadequate number of organisations (40%) use quality related data to evaluate the performance of all departments and employees, and they conduct inspections effectively. Most of them use quality control tools extensively for process control and improvement. Generally, the organisation often participates in new product development and the product designs are thoroughly reviewed before marketisation. The study indicated that about 90% of organisation use ISO 9000 as guideline for establishing the quality system and they have a clear quality manual, procedure documents, and clear working instructions.

75% of the responded those who are using ISO 9000 strongly agreed that they were facing difficulties in implementing ISO 9000QMS due to the increase in the amount of paperwork, the difficulties in controlling too many suppliers, and understanding different terminologies used in the standards and presence of full time quality manager. Only 12% of the respondents found themselves alright with the ISO 9000 QMS. It is noticed from this study that most organisation implement employee's suggestions after an evaluation. About 39 % of respondents strongly agree that employees were committed to the success of the organization whereas 52.5% were partially agreed, 3.4% were disagreed and 5.1 % strongly disagreed. This indicates a poor management employee relationship.

The respondents were asked whether the employees were encouraged to accept education and training within the organization. The results were 50% strongly agreed, 44.8% partially agreed, and only 5.2% disagreed. A total of 44.1% of respondents in this study strongly agreed that most employees in the organization were trained on how to use quality management methods, whereas 40.7% partially agreed, and 8.5% disagreed, and 6.8% strongly disagreed. It was observed that most organization collects extensive complaint information from

customers and quality related customers complaints are treated with priority. The study demonstrated that 66.7% of respondents stated that organization conducts a customer satisfaction survey every year, whereas 30% were partially, and 3.3% were not at all. Therefore, it can be concluded that most respondents strongly agreed that the organizations conduct a customer satisfaction survey every year.

## 5. CONCLUSIONS

This paper presented an investigation result on current quality control practices within the manufacturing industries in the industrial part of Tirana to assess the prospects of implementing TQM technique and principles in order to improve the product quality and customer satisfactions, and overall improvement of market share. It was found that many companies have a low-level awareness of TQM implementation and its benefits. This is because of emphasising on the one aspect of quality program ISO 9000 QMS. The result of the survey pointed out some of the major difficulties of implementation of ISO 9000QMS such as increase in the amount of paperwork, difficulties in controlling too many suppliers/subcontractors, and understanding different terminologies used in the standards and need for full time quality manager. To obtain a better and more representative result a further investigation can be conducted throughout the country. This investigation only used an MCQ type questionnaire for the survey. In the future in addition to this, some other forms of survey tools such as personal interview, descriptive questionnaire etc can also be used to come into a more accurate conclusion.

## **Land Use/Land Cover Changes in a Disturbed River Watershed Kenya**

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## **Abstract**

Drivers of land use change were captured by the use of DPSIR model where Drivers (D) represented human needs, Pressures (P), human activities, State (S), the ecosystem, Impact (I) services from the ecosystem and Response (R), the decisions taken by land users. Land sat MSS and Land sat ETM+ (path 185, row 31) were used in this study. The Land sat ETM+ image (June 1987, May, 2000 and July, 2014) was downloaded from USGS Earth Resources Observation Systems data website. Remote sensing image processing was performed by using ERDAS Imagine 9.1. Two land use/land cover (LULC) classes were established as forest and shrub land. Severe land

cover changes was found to have occurred from 1987-2000, where shrub land reduced by -19%, and forestry reduced by -72%. In 2000 – 2014 shrub land reduced by-45%, and forestry reduced by -64%. Forestry and shrub land were found to be consistently reducing.

**Keywords:** watershed. Land use\land cover change, Landsat imagery, Geographic Information System,

## Introduction

Land use/Land cover change (LULCC) is continuously changing the Middle part of the River Njoro watershed, thereby threatening sustainability and livelihood systems of the people. Biodiversity is facing widespread competition with humanity as human population increases, resulting in increasing conflict between economic development and the need for biodiversity conservation. These environmental problems are often related to LULC changes. LULCC and human/natural modifications have largely resulted in deforestation, biodiversity loss, global warming and increase of natural disasters like flooding (Fan *et al.*, 2007, Dwivedi, *et al.*, 2005). LULCC plays a major role in the study of global Land use/land cover change. Coexistence between local land uses and conditions for environmental, social, and economic sustainability has not been adequately addressed. Land use/land cover change is dynamic. It is mainly driven by natural phenomena and anthropogenic activities. Seto, *et al.*, 2002, has reported that pressure from growing population and increasing socio-economic necessities results in unplanned and uncontrolled changes in LULC. Therefore, available data on LULC changes can provide critical input to decision-making of environmental management and planning the future (Fan, *et al.*, 2010, Prenzel, 2004).

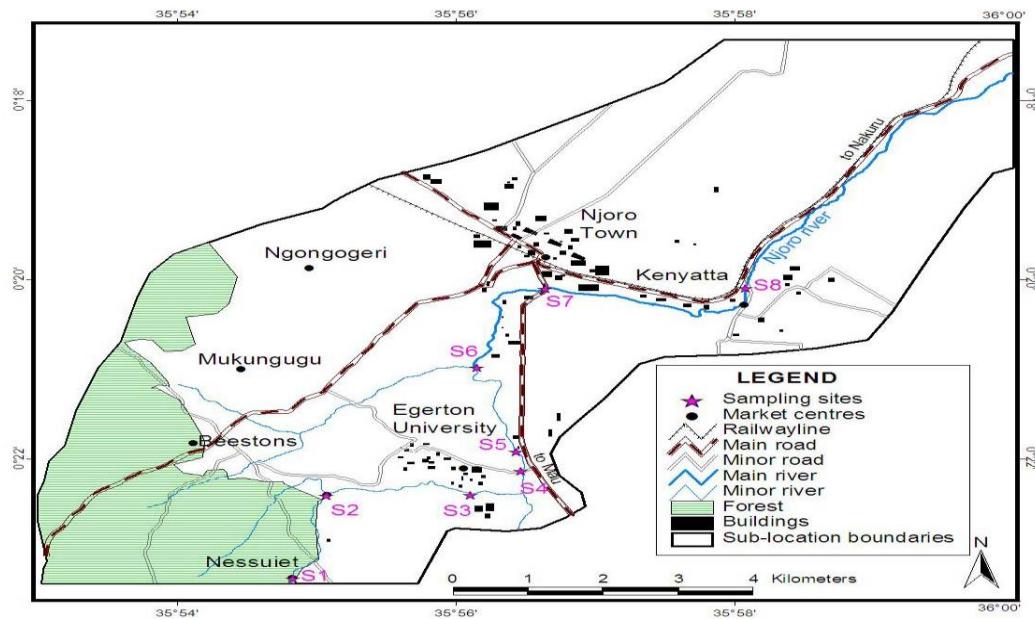
Drivers, pressure, State, Impact and Response (DPSIR) model as a decision making tool, has been applied in numerous research efforts; including Water Resources Management at various scales. It has also been used in a series of international and multidisciplinary research projects as the main analysis tool (Tscherning *et al.*, 2012). The demand for agricultural land, energy, water, food, transport and housing can serve as examples of driving forces (Giupponi, 2002; Kristensen, 2004; Wood and van Halsema, 2008). Pressures consist of the driving forces' consequences on the environment such as the exploitation of resources (land, water, minerals, and fuels), pollution and the production of waste or noise (Wood and van Halsema, 2008). As a result of pressures, the 'state' of the environment is affected; that is, the quality of the various natural resources (air, water, and soil) in relation to the functions that these resources fulfill. The 'state of the environment' is thus the combination of the physical, chemical and biological conditions. The support of human and non-human life as well as the depletion of resources can serve as pertinent examples (Kristensen, 2004). Changes in the state may have an impact on human health, ecosystems, biodiversity, amenity value and financial value. Impact may be expressed in terms of the level of environmental harm and finally, the responses demonstrate the social efforts to solve the problems identified by the assessed impacts, e.g. policy measures, and planning actions (EEA, 1999; Giupponi, 2002; Kristensen, 2004; Wood and van Halsema, 2008).

Remote sensing and Geographical Information Systems (GIS) as a resource management tool is powerful to derive accurate and timely information on the spatial distribution of land

use/land cover changes over large areas (Guerschman, *et al.*, 2003, Rogana and Chen, 2004, Zsuzsanna, *et al.*, 2005). GIS provides a flexible environment for collecting, storing, displaying and analyzing digital data necessary for change detection (Yomralioğlu, *et al.*, 2000, Demers, 2005, Wu *et al.*, 2006). The aim of land cover change detection process is to recognize LULCC on digital images that change features of interest between two or more dates (Muttitanon and Tiupathi, 2005). This change in land use has exposed the land to various pressures resulting from poor management, low cost technologies for soil fertility management, continued use of inappropriate technologies and intensive cultivation. Therefore, there is a need to understand how land use changes had affected the environmental sustainability of the area.

## 2.0 Study Area

The area of study covers about 8,170 ha and lies between latitudes 0° 15' S and 0° 25' S and longitudes of 35° 50' E and 36° 00' E (Figure 1). The whole watershed has a population of about three hundred thousand (300,000) people with more than three thousand (3000) individual farm holding units (Baldyga, *et al.*, 2003). However, according to Kenya National Bureau of Statistics, Njoro Sub County registered a population of 23,551 people having grown by 3% from a population of 22,845 people in 1999 (KNBS, 2009). Based on the same growth rate, the watershed population may have also grown to 309,000 people with maybe 3100 households. Due to the heavy settlement in the middle part of the watershed, it is estimated to be home to about 2000 farm holding units in an area of more than 8,000 ha with slopes ranging from < 2 to > 18 % and soils that are predominantly volcanic clay loam except near the lake where silt clay is found (Mainuri and Owino, 2013).



**Figure 1:** Middle River Njoro Watershed (Source: Mainuri and Owino, 2014)

### **3. Methods**

A baseline survey at household-level encompassing socio-economic changes and impacts of land use activities in the middle part of the River Njoro Watershed was established. Additionally, information on factors influencing land use decisions, productivity factors and change in economic activities were sought through use of a questionnaire. The middle part of the River Njoro Watershed household survey was to target an area of approximately 8000ha. The Landsat scenes were selected (1987, 2000 and 2014) for this study. These dates captured the major excision and settlement changes that have taken place in the watershed. Efforts were made to acquire imagery that corresponds with major land use/land cover changes within this period.

The study utilized 200 questionnaires which were administered to homesteads that were initially identified at random on both sides of the river. The questionnaires were subjected to scrutiny for completeness and consistency in question answering and the way they addressed the various issues intended to be captured. The questionnaires were sorted out and entered into the SPSS (version 20) work sheet. With the descriptive and categorical nature of most of the questions, simple descriptive analysis was done using SPSS and inferential statistics performed based on the results.

#### **3.1 Image classification**

Land sat MSS and Land sat ETM+ (path 185, row 31) were used in this study. The Land sat ETM+ images (June 1987, May, 2000 and July, 2014) were downloaded from USGS Earth Resources Observation Systems data. The dates of both images were chosen to be as closely as possible in the same vegetation season. All visible and infrared bands were included in the analysis. Remote sensing image processing was performed using ERDAS Imagine 9.1. Five LULC classes were established as commercial farms, forest, settlement, subsistence farms, and shrub land. Three dated Land sat images (1987, 2000, and 2014) were compared using supervised classification technique. In the supervised classification technique, three images with different dates were independently classified. A Supervised classification method was carried out using training areas. Maximum Likelihood Algorithm was employed to detect the land cover types in ERDAS Imagine 9.1.

### **4.0. Results**

#### **4.1. Nature and status of Land Use/ Cover during acquisition time**

The study established that most of the land was under cultivation when the current owners acquired it, as the majority (31.7%) of the responses portrays it. This was closely followed by grass cover which formed 26.6% of the total responses, with 19% reporting that the land area was under indigenous trees when they initially moved in, while a 15.4% response exhibited presence of exotic trees. However, only 7.3% of the total responses reported the presence of soil and water conservation structures on the land during initial settlement period (Table 1).

**Table 1:** Nature/ state and extent of Land cover during acquisition by current owners

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Responses on Land use
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Land Use / Cover	N (Number of Respondents Interviewed)	Percent (observed Land use change)	Percent of Cases (interviewed)
Presence of soil and water conservation structures	24	7.3%	12.9%
Under cropping	105	31.7%	56.5%
Under grass cover	88	26.6%	47.3%
Under indigenous trees	63	19.0%	33.9%
Under exotic trees	51	15.4%	27.4%
Total	331	100.0%	178.0%

#### 4.2: Land use activities and factors influencing decisions

An interview was carried out on some key informants concerning the land use activities. They reported that the main environmental impacts were a general increase in agricultural activities on riparian zones. The main economic activity creating impacts to the ecosystem that was reported by these people was usually farming which resulted in the reduction of natural vegetation. However, the state of the ecosystem has remained a bit stable due to agro forestry that has contributed to planted forest which is thriving in some parts of the ecosystem. The response from those interviewed indicated that 88 per cent of those interviewed were farmers, 3 percent were business persons, 3 percent masons, and 3 percent crafts men and 3 percent teachers. Respondents' level of education refers to the actual number of years spent in school. The interview showed that 50 percent of the respondents had obtained up to primary education, while 20% percent have not obtained any formal education. A lower proportion (33%) had obtained secondary and post secondary level of education. Generally, 70 percent of the respondents had primary level education and below. The finding indicates that most of the respondents in the middle part of the river Njoro watershed had low formal education and this may have affected the way in which they responded to new information on resource conservation and how they also received innovative ideas.

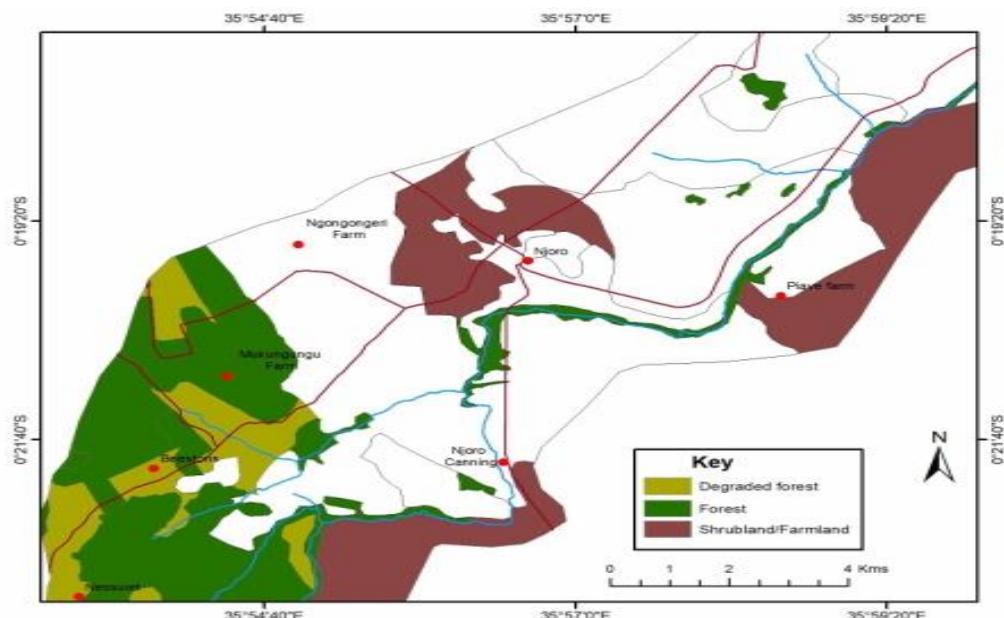
The respondents were interviewed on the changes in natural vegetation. A huge portion of the respondents (93% ) have observed massive land use changes taking place with 7% not feeling that there has been any noticeable change in land use. This possibly could be that they have recently settled in the area and since they settled there has been no change. The pressures exerted by the society through deforestation may have led to unintentional or intentional changes in the state of the ecosystem. As a result of no proper land ownership, most people are shy to invest in long term development activities and majorities are sluggish or unable to take any resource conservation measures. Assessment of driving forces behind land use change was done to capture past patterns and also be able to forecast future patterns. Driving forces on land use included most of the factors that influenced human activity that exert pressure on the ecosystem, including population increase, poverty, land tenure and markets. Also other underlying factors that drive actions like food preference demand for specific

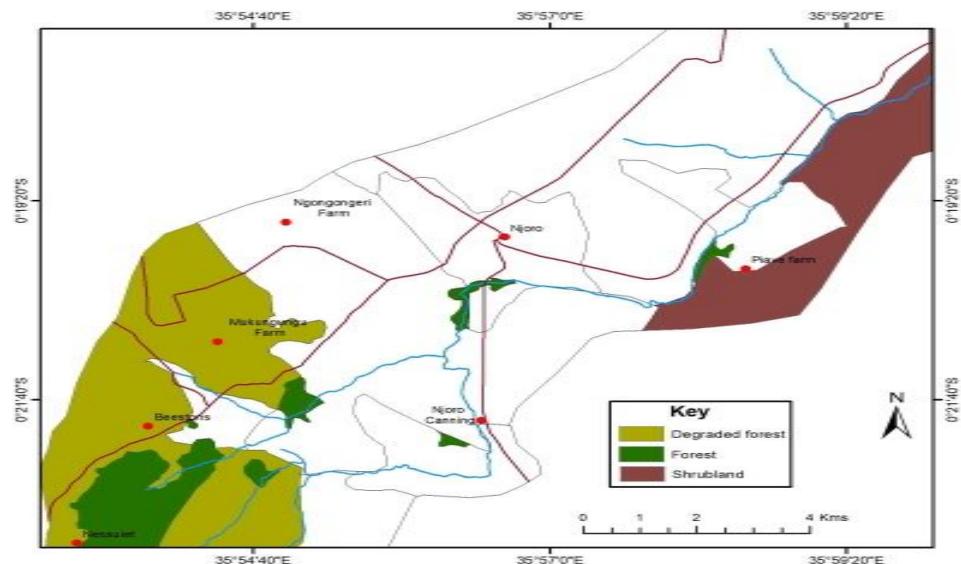
products, financial incentives and environmental state indicators such as soil quality, terrain and moisture availability played a great role in affecting the natural vegetation as shown in Table 2.

**Table 2: Change detection**

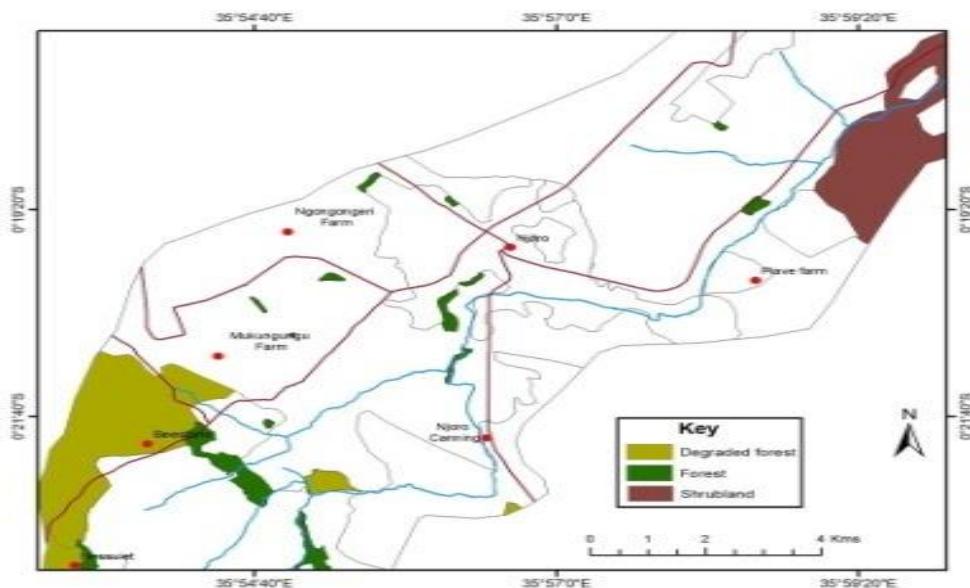
Class Type	1987 Area in Hectares	2000 Area in Hectares	2014 Area in Hectares	Percent change in area (2000-1987)	Percent change in area (2014-2000)
Forest	1460.898	405.351	145.712	(-1055.55)-72%.	(-259.64) -64%
Shrub land	849.281	687.820	373.150	(-161.46) -19%,	(-341.67) -45%

Increasing land use/cover changes were observed in the middle part of the river Njoro watershed ecosystem over the last twenty seven (27) years. These changes resulted from a number of factors, but mainly related to habitat loss due to various human activities. Information about changing patterns of land use/cover through time and the factors influencing such changes have been captured in the change detection maps shown in Figure 2, 3 and 4 below.

**Figure 2: Forests and Shrub Lands cover in 1987**



**Figure 3:** Reduction of Forests and Shrub Lands in the year 2000



**Figure 4:** Reduction of Forests and Shrub Lands in the year 2004

#### 4.3: Natural Vegetation Cover

From the study, it is evident that natural vegetation which was indicated by forest and shrub land (Table 3) has reduced over the period the respondents have resided in the area. The

results from image processing and analysis for the years 1987, 2000 and 2014 portray a general reduction in both forests and shrub lands within the study area. We can therefore say that deforestation has been witnessed in the study area for the last two decades due to land use patterns.

**Table 3 Respondents' view on Natural Vegetation**

Year	Forest Area(ha)	Shrub land Area (ha)	Natural Vegetation Change	Frequency (Number interviewed)	Percent of respondents interviewed
1987	1460.898	849.281	Decrease	32	20.6
2000	405.351	687.820	Decrease	123	79.4
2014	145.712	373.150	Total	155	100

#### **4.4: Reasons for Reduction in Natural Vegetation**

Several activities and their impact on reducing natural vegetation were identified during the study. From Table 4, cultivation stood out to be the major driving force that led to the reduction in natural vegetation cover in these areas as reported from the respondents. This constituted 33% of the total responses. Other activities included charcoal burning (11.2%), infrastructural development (10.4%) and grazing (9.9% and commercial timber production (4.7%). Collectively, these have led to deforestation in the area under study.

**Table 4: Responses for change in natural vegetation**

Reasons for change	Responses on Land cover change		Percent of Cases
	N	Percent(observed)	
Commercial timber production	18	4.7%	11.1%
Cultivation	127	33.0%	78.4%
Infrastructural development	40	10.4%	24.7%
Charcoal burning/ firewood	43	11.2%	26.5%
Grazing	38	9.9%	23.5%

## 5.0 Discussions and Conclusions

In order to determine the current land use and factors that influence land use decisions in the middle part of the River Njoro watershed the study sought to establish the kind of land use before the occupation of the current inhabitants. It was found that 32 % of the land was under cultivation when the current owners acquired it as confirmed by the interviewee. 27% of the respondents indicated that they occupied land that was under grass cover with 19% reporting that the land area was under indigenous trees when they initially moved in, while a 15% response exhibited presence of exotic trees. Driving forces on land use included most of the factors that influenced human activity that exert pressure on the ecosystem, including population increase, poverty, land tenure and markets.

Alongside determining the land use and factors influencing land use decisions, the study also looked at land use/land cover changes that were as a result of land use decisions that the people made. It was noted that there were increasing land use/cover changes observed in the middle part of the river Njoro watershed over the period of study. These changes resulted from a number of factors that included increase in population, change in lifestyle and the need to provide food for the increasing numbers of people.. Several activities and their impact on reducing natural vegetation were identified during the study with cultivation being the major driving forces that has led to the reduction in natural vegetation cover in these areas constituting 33% of the total responses. Other activities that contributed to land use/land cover change included charcoal burning, infrastructural development and grazing and commercial timber production. Collectively, these have led to deforestation in the area under study.

Land degradation by overgrazing and intensive agriculture on marginal lands is a major driver of land cover loss in the middle part of the river Njoro watershed. In this rapidly industrializing area with dense populations, demand for land for industry and residential use is driving the transformation of some of the most productive agricultural land out of production in the watershed. Policy efforts to avoid this loss of production are there but, their effectiveness in the face of economic demand is often limited. The effectiveness of these efforts and other national efforts to reduce the negative impacts of LULCC remain to be seen. The need for greater efforts and new methods to monitor and mediate the negative consequences of LULCC remains acute and we have to sustain current and future human populations under desirable conditions. This can be realized by putting in place policies like reafforestation of natural forests, mandatory planting of trees in homestead, controlled tree harvesting and restricting encroachment into the forests.

### 5.1: Conclusions

The factors driving land use decisions in the middle part of the River Njoro watershed include demographic and economic developments in the watershed community, and the corresponding changes in lifestyles, overall levels of consumption and production patterns. These drivers have exerted pressure to the ecosystem in form of waste disposal, over cultivation, overgrazing and deforestation. These pressures have caused negative changes to the watershed which have caused heavy impacts mainly through removal of natural vegetation. The removal of natural vegetation (LULCC) in the middle part of the River Njoro watershed has resulted in the decrease of the forest area by 1314 ha and shrub land by 475 ha in the last 27 years. The integration of remote sensing and GIS was found to be effective in

monitoring and analyzing land cover patterns and also in evaluating impacts of land use change for future land development projects by the residents of study areas.

The residents are therefore recommended to develop responses to rehabilitate the degraded environment through re-afforestation, soil and water conservation and reduction of land use/land cover change (LULCC) in order to mitigate the negative outcomes of the ecosystem changes.

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## Restriction on the Authority to Represent in Turkish Joint Stock Companies Law

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### Abstract

Turkish Joint Stock Corporations Law is based upon Swiss Law. Turkish Commercial Code of 2012 reflects a pure reception of the rules regarding the representation of the company from Swiss Law. However in 2014, Turkish Law has confronted the enforcement of Art. 371/7 TCC, which enables restrictions on the representation authority in terms of the material and monetary scope of the transaction. This study aims to bring a critical view of this regulation and to introduce a draft for a well-directed regulation with respect to restrictions related to power of representation.

**Keywords:**Joint stock corporation, representation, distinction between management and representation, internal regulations, delegation of representation authority.

### 1. Fundamental Structure of the Regulations in Turkish Law Regarding Representation of Joint Stock Corporations

Primary sources of Turkish Joint Stock Corporations Law are Swiss Obligations Law and regulations of European Union (TCC's Preamble, General Part, par. 7). In Turkish Law, more specifically in Turkish Commercial Code published in TOG dated 14.02.2011, numbered 27846 and enacted in 2012, representation of the company is ruled under Art. 329-563 TCC and is formulated in accordance with corporate governance principles (TCC's Preamble, General Part, par. 9; further Tekinalp, 2008, pp. 635-636; Eminoglu, 2014, p. 57 ff.; Demir, 2016, p. 43). In this respect corporate management and representation of the company is subject to detailed rules (Art. 359-375 TCC).

Turkish Commercial Code is an inherent part of Turkish Civil Code No. 4721 (Art. 1/1 TCC). Both Turkish Civil Code and Turkish Code of Obligations is subject to reception from Swiss Law. Thus, the interaction between representation in terms of General Obligations Law and corporate representation is the same in Turkish Law compared to Swiss Law. In General Obligations Law, the representative acts on the name and on behalf of the represented person (direct representation) or acts on his/her own name but on behalf of the represented person (indirect representation) (Oguzman & Oz, 2011, p. 223). On the other part, in terms of the corporate representation, the representative is the representative body of the legal entity and enables the legal entity to exercise its legal capacity. Since the transaction effectuated by the representative body of the legal entity directly and solely rises its legal effects on the legal entity, representation in terms of General Obligations Law and corporate representation are distinct mechanisms.

In general, rules regarding representation in Obligations Law are equivalently applicable to corporate representation unless there is a specific rule and provided that the nature of corporate representation allows such an analogy (Oguzman & Oz, 2011, p. 223; Kirca, Sehirali Celik, & Manavgat, 2013, p. 624). For instance, rules regarding unauthorized representation are thoroughly applicable to corporate representation. On the contrary, rules regarding the requirement for specific mandate are not applicable to corporate representation, since the representatives of a joint stock company, whose powers of representation are not limited by scope, may effectuate any kind of transactions (Kirca et al., 2013, p. 625) which fall within the field of operation of the company. That particular interdependence between the field of operation (specified in the AoA) and the authorities of the representative will be detailed in Section 4 below.

Thus, the authority of representation covers all kind of transactions within the field of operation. As the activity of the joint stock company starts to intensify and becomes more complex, a detailed regulation regarding representation is needed. From a general perspective, unless otherwise agreed, TCC provides the Board of Directors with the authority of representation in the broadest way.

In cases where the structure of the joint-stock company requires a detailed representation system, in two cases, certain breakdowns are needed: delegation of the representation authority to third persons outside the board of directors and limitation of the representation authority of the legal representatives.

The aim of this study is to focus on "limitation of the representation authority in terms of subject and quantity" within the context of limitation of representation authority in joint stock companies stipulated by Turkish Law differently from Swiss Law which constitutes the primary source of Turkish Joint Stock Company Law. In order to examine the subject, first, provisions regarding representation in joint stock companies under Turkish Law will be examined and such examination shall also include the legal provisions of Swiss Law regarding the matter. In the second stage, the interaction between the representation authority and the ultra vires rule will be discussed. Following the said discussion, the ways of delegating and limiting the representation authority will be explained. In the last section, as a provision accepted only under Turkish Law yet unrecognized by Swiss Law, "limitation of representation authority in terms of subject and quantity" will be examined and certain specific legal issues arising from such rule will be discussed.

## **2. General Overview of Legal Provisions Regarding Representation In Turkish Joint Stock Companies Law**

### **2.1. Provisions Regarding the Board of Directors' Representation Authority**

Apart from the limitation of representation authority in terms of subject and quantity, representation in Turkish Joint Stock Company Law is regulated parallel to Swiss Joint Stock Company Law. At this stage, not all legal regulations related to the representation in joint stock companies will be a part of this study; only the general and specific rules which are directly related to our subject will be addressed.

First of all, Art. 365 TCC, under the section regarding the management and representation of the joint stock companies, stipulates the main principle regarding representation of the

company: (1) *The board of directors manages and represents the company. Exceptions prescribed in law are preserved.*

The distinction between management and representation established through this rule in Turkish Law (Kirca et al., 2013, p. 600). In brief, management is related with making decisions regarding the functioning of the company and representation serves to implement transactions with third persons on behalf of the company. Powers of management and representation may be attached to the same persons or not. In any case, management and representation is independent from each other, whereas each of these functions is subject to a different regime (Nisim, 2000, pp. 31-47).

The way to use the representation authority is prescribed in Article 370 TCC: (1) *Unless a different arrangement is set in the AoA or the Board is composed of a sole member, power of representation shall be exercised by the Board of Directors with joint signatures of two members.*

This rule reflects the general principle related to representation and further to stipulating that such power belongs to the Board, it also states that the representation authority shall be effectuated with two signatures of any members (Bilgili & Demirkapi, 2013, p. 383). Whether a different regime shall be arranged in the AoA is up to the discretion of the founders or later of the shareholders of the Company, who shall arrange or form a general assembly resolution to amend the AoA.

The limits of the scope of representation is designed in Art. 371/1 TCC: (1) *Those who are authorized to represent the company may effectuate, on behalf of the company, any kind of transactions within the scope of the field of operation and shall use the trade name of the company. The company is entitled to require compensation for its loss and damages arising from transactions breaching laws or the AoA.*

Abovementioned rule, which is reviewed in detail by Yanli and Okutan Nilsson (2014, pp. 6-42), is only valid unless the power of representative authority is restricted in terms of subject and quantity in accordance with the article 371/7 of TCC. Unlike the mandate contract between individuals, the legal representatives of the company are the competent body for its representation, hence, even the transactions that require special authorization such as arbitration, waiver, settlement and acceptance under mandate contracts, are included in the scope of their power of representation (Isik, 2015, p. 32). It should be noted that, for mandate contracts, Art. 504/3 OR stipulates that, unless granted with a special authorization, the Mandatary is not entitled to initiate a lawsuit, enter into a settlement, refer to arbitration, declare bankruptcy, request suspension of bankruptcy, request concordat, draw up a promissory note, donate, enter into a surety, transfer real property or restrict it with any kind of transaction.

## **2.2. Provisions Regarding the Delegation of the Representation Authority**

Main principle regarding the transfer of representation authority under Turkish Law is as follows:

### ***II. Representation Authority***

#### ***1. General Overview***

*Article 370- .... (2) Board of Directors may transfer the representation authority to one or more executive board members or to third persons as executive directors. At least one member of the board shall have the authority to represent the company.*

Art. 370/2 TCC, preserves the rule stipulated by Art. 718/3 regarding the authorization of at least one member of the Board to represent the company. In Turkish Law, on condition that Art. 370/2 is respected, it is allowed to delegate authority to other board members or to third persons outside the board to represent the company.

Board of directors is solely and exclusively entitled to decide whether to delegate the representation authority (Yanli, 2013, p. 448). In line with Art. 716a/4 OR, Art. 375 TCC included the appointment of representative authorities within the exclusive powers of the Board of Directors. Before the entry in force of abovementioned rule, in Turkish law practice, Board of Directors used to provide the third persons, who are not members of the Board, authority to represent the company on a continuous basis which were also exceeding the individual matters. Such malfunction has been resolved by Art. 375 TCC (Kirca et al., 2013, p. 631-632).

If the transfer of representation authority is also accompanied by a restriction of representation authority, Art. 371/7 envisages the implementation of a special procedure which will be reviewed in the following section.

### **2.3. Provisions Regarding the Limitation of the Representation Authority**

As parallel to Swiss Law, under Turkish Law there are certain methods to limit the representation authority such as "limiting the power to the transactions regarding the headquarter or branch offices" or "requiring joint signatures of authorized signatories". Additionally, specific to Turkish Law, the option to limit the representation authority in terms of subject and quantity is also included (Art. 371/7 TCC).

In cases where representation authority is not limited or only limited to "the transactions regarding the headquarter or branch offices" or "joint signatures", Board of Directors' resolution regarding the appointment of representative authorities and the limitations of representation authority shall be registered to the trade registry office.

#### *4. Registration and Announcement*

*Article 373- (1) The board of directors shall submit the notarized copy of the resolution indicating the persons authorized to represent and the forms of representation, to the trade registry for registration and announcement.*

The signature circular issued by the notary public with reference to abovementioned registration process is used in order to certify the authority of the representatives for transaction security. In parallel to Art. 718a/2, these two restriction options are regulated by Art. 371/3 as follows:

#### **2. Scope and limits**

*Article 371- ....(3) The restriction on the representation authority shall not be effective against third parties in good-faith; however, the restrictions which are registered and announced in relation to limiting the authority to the transactions regarding the headquarter or branch offices or to exercise of authority by joint signatures are valid.*

The said provision which is stipulated in the first version of TCC is also preserved by the amendment made to the TCC by Law number 6552, which is published in TOG dated 11.09.2014, numbered 29116, however, the rule regarding the limitation of representation authority in terms of subject and quantity has been introduced for the first time under Turkish Law by Art. 371/7 of the TCC.

*Article 371- ..... (7) The Board of Directors, with the exception of certain representatives referred to above, may appoint non-representative members of the Board of Directors or persons bound to the company by a labor contract as commercial representatives with limited representative authority or other commercial assistants. Powers and duties of persons appointed in this manner shall be clearly stated in the internal directive issued in accordance with Art. 367. In such case, the registration and announcement of the internal directive shall be mandatory. Commercial assistants or other commercial representatives shall not be appointed with the internal directive. Commercial assistants or other commercial representatives authorized by this paragraph shall be registered in the Trade Registry and announced. The Board of Directors shall be liable jointly and severally for any damages caused by these persons towards the company or third persons.*

Such legislation had been introduced due to issues arising from the implementation of Art. 371/3 TCC which is designed in parallel with Art. 718a/2 (Akdag Guney, 2010, p.186 and footnote 538). In Turkish law practice, board of directors' resolutions and signature circulars regarding the distribution of representation authorities used to contain material and monetary limitations as well as limitations regarding "headquarter or branch offices transactions" or "joint signatures" (Akdag Guney, 2010, p. 538; Kirca et al., 2013, p. 640). For instance, classification of representation authorities under specific groups such as A, B or C and authorizing group B representatives only for "transactions up to 100,000.00 TRY" and group C representatives only for "transactions regarding the customs operations" used to be a common practice. In line with the explicit provision of the law, it was accepted that limitations in terms of subject and quantity (material and monetary limitations) shall not be binding for third parties. A number of trade registry offices suggested that material and monetary limitations had no field of application within the new legal structure introduced by TCC and rejected the registration requests with regards to board resolutions containing material and monetary limitations. Art. 371/7 TCC is introduced and put into force to address the said problem.

Below, after reviewing the new rule with regards to the interaction between ultra vires rule and representation, we will be examining the legal regime introduced by Art. 371/7 TCC.

### **3. Interaction Between Ultra Vires Rule and the Representation Authority**

Prohibition of carrying out transactions outside the scope and field of activity of the company (*ultra vires*) under Turkish Law is abandoned by TCC (Uzunalli, 2013, p. 32-33; Helvacı, 2001, p. 82-83; Oguzman, Selici, & Oktay Ozdemir, 2015, p. 262; Bahtiyar, 2019, p. 50 ff.) in the light of provisions regulating the legal personality and the capacity of the joint stock companies:

*Article 125- (1) Commercial companies have legal personality.*

*(2) Commercial companies are entitled to enjoy all rights and undertake all obligations within the scope of Article 48 of Turkish Civil Code. Judicial exceptions regarding this matter are reserved.*

However, the provisions of two separate articles concerning the scope of business must be taken into consideration together. Firstly, according to Art. 210/3 of TCC, in case that transactions outside the scope and field of the activity are carried out on a continuous basis, the company shall be subject to termination sanction.

#### *H) Regulatory and Supervisory Authority of the Ministry of Customs and Trade*

*Article 210... 3) The Ministry of Customs and Trade may initiate proceedings for termination against commercial companies engaged in transactions or in preparations to carry out such transactions that are contrary to public order or to their field of activity or against companies engaged in collusive works and activities within one year following the uncovering of such transactions or preparations. Legal provisions stipulated in specific laws are reserved.*

The prevailing view among scholars is that Art. 201/3 of TCC is only applicable in cases where operations outside the scope and field of activity are carried out on a continuous basis (Uzunalli, 2013, p. 148). Thus, a distinction is made between the individual or continuous operation of transactions outside the scope of business activity. The consequence of the individual transactions carried out contrary to ultra-vires rule is regulated by Art. 371/2:

#### **2. Scope and Limit**

*Article 371... (2) The transactions, which are conducted with third parties outside the scope and field of activity by those who are authorized to represent, shall bind the company; unless it is proven that the third party was aware that the transaction is outside the scope and field of activity or they were capable of being aware given the circumstances. The announcement of the company's articles of association shall not serve as sufficient evidence alone to prove such knowledge of the third party.*

As seen above, transactions carried out contrary to ultra vires rule are no longer considered related to qualification and legal personality issues under Turkish Law and they are now subject to consequences of representation without authorization.

In those periods where the ultra-vires rule had a strict application in Turkish Law, legal transactions executed contrary to ultra vires rule were legally deemed void which was posing a serious threat to the transaction security (Bahtiyar, 2001, p. 121; Uzunalli, 2013, pp. 12-15). Therefore, giving green light to transactions contrary to ultra vires rule by Art. 125 TCC while determining the legal capacity of rights and obligations of companies, is considered as a positive improvement by both scholars (Gucluturk, 2015, p. 272; Bilgili & Demirkapi, 2013, p. 53-54) and practitioners. However, Art. 210/3 of TCC which enables the Ministry of Trade to initiate proceedings for termination of the company in case of continuous transactions outside the scope and field of activity demonstrates that the legislator still attributes a value and function to the scope and field of activity of companies. With regards to individual transactions carried out contrary to ultra vires rule, the effect of such function is to bring along the consequences of unauthorized representation.

In our opinion, Art. 371/2 TCC is an accurate regulation, even though it contradicts with Art. 125 TCC. Undoubtedly, in the modern Company Law, the ultra-vires rule is gradually losing its effect (Bahtiyar, 2001, p. 123-124; Bilgili & Demirkapi, 2013, p. 53-54), and it preserves its importance only with regards to companies that are subject to the State supervision which require special authorizations for their establishment and any amendments to be made to

their articles of association. However, joint stock companies that are not subject to any authorization also need protection against transactions outside the scope and field of activity. Although it might be suggested that such need is already satisfied with the provisions regarding the personal liability of board members, the preventive restriction imposed by the legislator within Art. 371/2 may serve to such purpose in a more effective way. However, several authors evaluate this norm as a “ruins” of *ultra vires* (Moroglu, 2005, p. 140; Kendigelen, 2012, p. 122; Bilgili & Demirkapi, 2013, p. 54).

In practice, the inconveniences caused by the said provision for the company may be overcome by elaborately designing the scope and field of activity in the articles of association. Likewise, any inconvenience for the counter-party of the legal transaction may be overcome by reviewing the relevant provisions of articles of association regarding the company's scope and field of activity prior to the execution of transaction. In the event that such transaction is carried outside the scope and field of operation without taking aforementioned measures, the unauthorized representation rules (Art. 46, 47 TCO) shall apply.

#### **4. Delegation and Limitation of the Representation Authority**

Unlike limited liability partnerships, in joint stock companies board of directors are entitled to appoint the representatives of the company. In practice, following its election by general assembly, board of directors shall convene and appoint the president and the vice-president and shall also take a resolution regarding the representation authorities. At least one board member must maintain the authority to represent the company (Art. 370/2 TCC). In cases where there is a sole director authorized to represent the company, the said member's authority to represent the company can only be restricted with requirement of joint signatures.

In cases where representation authority is delegated to specific members of the board instead of any two directors or delegated to third persons outside the board in accordance with Art. 365 TCC, provisions regarding transfer of the representation authority will apply. In all cases within the scope of the said situation, the representation authority is being taken away from board of directors and transferred to specific member(s) or to third persons outside the board (Pulasli, 2015, p. 1105). Transfer of representation authority is effectuated through a board resolution. With such a resolution, the legal regime of “representation of the company with the joint signatures of any two members of the board” is abandoned.

In the event that while being delegated, the representation authority is also restricted, this time a distinction must be made regarding the method to be followed. If the representation authority is being limited to “transactions of the headquarter or branch offices” or “requirement of joint signatures”, in this case both transfer and restriction may be effectuated through a single board resolution (Akdag Guney, 2017, p. 114; Sener, 2017, pp. 377-378). Whereas, in case of introducing material or monetary limitations to the representation authority, an internal directive must be prepared in compliance with Art. 371/7 TCC. This matter will be discussed in detail in Section 5.

The essence of the limitation of representation authority lies within economic reality. Various factors such as the scope of activity of the company (Kirca et al., 2013, p. 628), its complexity and the geographical extent of these activities require appointment of a large number of representatives on one hand and surveillance over these appointed representatives on the

other. The fact that management and representation are separated (Akdag Guney, 2010, p. 168 ff.) does not constitute alone a sufficient guarantee in terms of controlling whether the representatives act in accordance with the resolutions of the managers.

If the representative is granted a significant liberty to act on its own initiative, the risk of financial indebtedness for the company becomes more severe. Since not every joint stock company is investing on effective reporting systems, such lack of reporting impedes also the functionality of internal audit (Ozkorkut, 2013, p. 29-30; Kayihan, 2011, p. 25 ff.). As we have already pointed out, the legal regime for the personal responsibility of the organs of the company (managing organs and representative organs) always steps in later and it does not promise effective results, yet again some scholars point out the relative preventive function of civil liability regime (Akdag Guney, 2010, p. 44; for the legal nature of the civil liability for board members please see Camoglu, 2010, p. 13 ff.). Therefore, the most effective solution to keep the use of such authority under control is to limit the representation authority along with its transfer.

Both Art. 718a OR and Art. 371/3 TCC stipulate that solely limitations of representation authority regarding "transactions regarding the headquarters or branch offices" or "requirement of joint signatures" may be claimed against third parties. In the first version of Turkish Commercial Code, no other regulations regarding the limitation of representation authority were included. However, the necessities in practice, impelled the legislator to regulate material and monetary limitations as well. Such limitations in terms of subject and quantity shall be implemented through a special procedure and by the virtue of their registration and announcement, they may be claimed against third parties to eliminate their good faith. To be more specific, in the event that a representative exceeds the scope of its authorization which was limited in terms of subject and quantity by an internal directive prepared in accordance with Art. 371/7 and duly registered and announced at the trade registry, the excess part of such transaction shall not be binding for the company.

## **5. Limitation of Representation Authority in Terms of Subject and Quantity and Issues Arising from Its Implementation**

### **5.1. Criticism of Flaws in the Legal System**

The legislator while drafting Art. 371/7 TCC, confused the concepts of "management with representation" on one hand and "joint stock company with commercial enterprise" on the other. Whereas TCC numbered 6102 is drafted by a legal committee composed of scholars and expert practitioners, the Law numbered 6552 which puts TCC into effect, has severe contradictions regarding the legal terms. Several authors have made similar criticism of the use of concept (Kirca, 2014, p. 37; Akdag Guney, 2014, pp. 1-2; Gucluturk, 2015, p. 277).

Firstly, the representative to be authorized along with several material and monetary limitations must be still considered as a representative body of the corporation. Therefore, it is definitely inappropriate to denominate the representatives with limited authorities as "commercial agent" or "other associates of the merchant". Secondly, another incorrect approach is to suggest that limitation of the representation authority in terms of subject and quantity shall be effectuated through an internal directive to be prepared in accordance with Art. 367 TCC.

Art. 367 TCC regulates the delegation of management powers through a board resolution provided that there is an article permitting such delegation in the articles of association of the company (Pulasli, 2015, p. 1007; Dogan, 2011, p. 125; Altay, 2012, p. 170; Unal, 2014, p. 121). Transfer of management powers indicates a total or partial transfer of management authorities to certain board members or to third persons outside the board and from certain perspectives it is different from transfer of representation authorities.

Firstly, whereas a provision in the articles of association of the company that allows transfer of the management powers is compulsory to effectuate a transfer of management powers (Kirca et al., 2013, p. 599 ff.); such an article is not required for transfer of representation authority (Yanli, 2013, p. 448; Kirca et al., 2013, p. 627; also see p. 600-601; Gucluturk, 2015, p. 274). We should note that Bahtiyar (2019, p. 234) criticizes the current regulation and points out the need for a new one, which would require a basic AoA clause for the delegation of representation powers and Tekinalp (2013, No. 12-75) claims that such clause is already *de lege lata* required. Moreover, management authorities may be transferred as a whole to third persons outside the board whereas transfer of representation authority cannot be completely transferred to third persons outside the board (Kayar, 2015, pp. 444-445). As a last point, the internal directive regarding the management authorities is not subject to registration and announcement at the trade registry (Altay, 2012, p. 174). However, material and monetary limitations on representation authority must be registered and announced. Once these differences are taken into consideration, the reference made to the internal directive regarding transfer of management powers is incorrect as to the internal directive to be prepared within the frame of Art. 371/7 TCC regarding the transfer of representation authority.

On the other hand, it is definitely unnecessary to emphasize that the said internal directive is not a means of appointment of commercial agents or associates of merchant since it is an internal directive concerning the limitation of representation authority in terms of subject and quantity.

Lastly, stipulation in Art. 371/7 TCC indicating that the board of directors shall be liable for any damages caused by representatives with limited authorities towards the company or third persons is of no significance. The legislator, at this point, seems to have abandoned the distinction between management and representation adopted by Art. 365 TCC in parallel with Swiss Law. However, as is known, whomever authorizes a representative to carry out a specific transaction, the same board member or director shall also be held directly and personally liable for any damages caused by the said transaction whereas other members of the board and directors shall only be held liable within the scope of their surveillance task. According to this, if a representative is granted authority to decide and perform a specific transaction at its own discretion, in case of any damages arising from such transaction the representative shall be directly held liable for the damages caused (Altay, 2012, p. 113, 195). However, if the said decision has been made by another director, the representatives shall only be held liable due to their warning duty arising from their managerial position either in board or in the company itself.

## **5.2. Our Suggestion Regarding A New Draft Article in Terms of Restriction of Representation Authority**

In the light of perspective we pointed out above, the legal structure regarding the limitation of representation authority must be approached in a systematic way in Turkish Law and regulated by a new legal provision. In our opinion, characteristics and scope of such regulation should be explained as follows:

All limitations regarding the representation authority must be regulated within the frame of a unique legal provision, on a common ground.

An explicit provision of law must be introduced by the legislator in order to clarify whether registration and announcement of such limitations is sufficient to eliminate the good faith of third parties.

In case the representation authorities will be regulated by an internal directive, it must be drafted separately from the internal directive regarding the transfer of management authorities.

In the draft legislation to be prepared, a meticulous distinction between management and representation matters must be included.

Any attempt to regulate liability matters within the provisions of law must be avoided, since, the legal structure regarding the personal liability of board members and directors is already regulated in a detailed way in Art. 553 TCC ff. in compliance with Art. 752 ff. OR.

Within the lights of these principles, we present hereinbelow our draft law article regarding the limitation of representation authority. The said draft article is solely related to limitation of representation authorities and therefore during its entry into force, all other provisions regarding the representation must be preserved.

### **5.3. Draft Law Article- Limitation of Representation Authority**

(1) The representation authority may be limited according to the following methods: Requirement of joint signature, limitation to transactions regarding the headquarter and branch offices, limitation in terms of subject and quantity.

(2) While introducing the limitation of the representation authority, only one, several or all of these methods may be adopted. In cases where there is a sole director authorized to represent the company, the said member's authority to represent the company may only be restricted by requirement of joint signatures.

(3) To regulate the representative positions which are to be created without any limitation to their authorities or through limitation of representation authority, an internal directive is to be prepared by the board of directors and it shall be registered and announced.

(4) In accordance with the internal directive, the board of directors shall determine the representatives that will be assigned in different representation positions and this decision shall also be registered and announced.

(5) The signature circular to be issued for the company shall include both the said internal directive (if there is any) and the board of directors' resolution regarding the appointment of a representative.

### **Conclusion**

In the present study, we have examined Art. 371/7 TCC introduced in Turkish Law differently from Swiss Law with respect to limitation of the representation authority in terms of subject and quantity and the draft article that we suggest, is formulated within the scope of following principles:

All limitations regarding the representation authority must be regulated within the frame of a unique legal provision, on a common ground.

An explicit provision of law must be introduced by the legislator in order to clarify whether registration and announcement of such limitations is sufficient to eliminate the good faith of third parties.

In case the representation authorities shall be regulated by an internal directive, it must be drafted separately from the internal directive regarding the transfer of management authorities.

In the draft legislation to be prepared, a meticulous distinction between management and representation matters must be included.

Any attempt to regulate liability matters within the provisions of law must be avoided, since, the legal structure regarding the personal liability of board members and directors is already regulated in a detailed way in Art. 553 TCC ff. in compliance with Art. 752 ff. OR.

## Abbreviations

**AoA** Articles of Association

**Art.** Article

**Batider** Journal of Banking and Commercial Law

**Ed.** Edition

**IULR.** Istanbul University Law Review

**No.** paragraph number

**p.** page

**par.** paragraph

**TCC.** Turkish Commercial Code

**TCO.** Turkish Code of Obligations

**TOG.** Turkish Official Gazette

**V.** volume

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<sup>1</sup> Except for the article of Osman Gazi Gucluturk, which has been written in English, other titles of the sources of Turkish Law have been specified in English language.

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**Analysis of the Digital Skills in the Eu Labor Market. a Case Study of the Banking Sector.**

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## Abstract

The digitisation of the economy has been a global trend in the last decade and more significantly during the last five years. The European Union recognises that digitalisation changes the structure of the labour market, affecting employment and income distribution. Over the last ten years, digital technologies have entered more and more sectors of the European economy. Over 40% of EU workers have been involved in changing and/or replacing the technologies they use at work. Structural changes in the labour market in Europe are closely correlated with the very high demand for advanced digital skills in the coming years. This paper analyses the political, economic, socio-cultural and technological factors affecting the development of digital skills in the European Union (PEST analysis), with a focus on the banking sector.

**Keywords:** digital skills; digital competences; ICT; labour market; digitalisation

**JEL Classification:** J24, O14

## Introduction

There is no common definition so far of "digital skills" or "digital competences". In the literature, different terms are used, sometimes with different interpretations, with the general understanding that they refer to the skills of using information and communication technologies. They include "computer literacy", "ICT literacy", "digital literacy", "digital competences", "ICT skills", "electronic skills", "technological literacy", "literacy in the media", and "information literacy" (Chinien-Boutin, 2013).

The first definition was "knowledge in ICT" (Fraillon et al., 2013). As information and communication technologies have become more complex and new applications have developed, broader definitions have emerged covering cognitive, behavioural, social and emotional skills. Over time, a series of overlapping (sometimes partial) definitions such as "computer literacy", "internet literacy", "media literacy" and "digital literacy" have emerged (Mutka, 2011). In 2006, the European Commission adopted the definition of "digital competence" as "the critical use of ICT for work, rest, learning and communication", considering digital competence one of the eight key competences for lifelong learning (European Commission, 2006). However, this concept is still fluid, susceptible to change and continuing to expand and change because of the rapid evolution of information and digital technologies (Ilomaki et al., 2011).

Through analysing the literature, three main categories of digital competences can be identified that are used in various models for measuring or developing digital competences. These three categories apply to different types of abilities and users (European Commission, 2017):

- a) **basic digital skills** that are, in fact, digital literacy for both personal and work use;
- b) **digital skills related to employment**, which include the basic skills to add the necessary knowledge to the workplace, mainly the use of ICT applications; and

c) **digital competences for ICT professions**, which, in addition to the first two categories, also include the specialised knowledge required in the ICT sector, as well as an innovative component and the ability to develop new digital solutions, products or services.

Digitalisation has just started. The scale and consequences for the whole of European society are impossible to assess with precision. We are truly facing a new industrial revolution that will dramatically change our way of life and the workforce.

The European Commission has grouped digital skills into categories (European Commission, 2018):

digital skills for all—developing digital skills to enable all citizens to be active in our digital society;

digital skills for the labour force—developing digital skills for the digital economy, e.g. upskilling and reskilling workers and jobseekers and giving career advice and guidance;

digital skills for ICT professionals—developing high-level digital skills for ICT professionals in all industry sectors;

digital skills in education—transforming the teaching and learning of digital skills in a lifelong learning perspective, including the training of teachers; and

digital skills for girls and women—taking actions to develop digital skills for women and girls.

In this paper, we focus on **digital skills for the labour force** in the EU-28, with a more detailed view of these competences in the banking sector.

## **Methodology**

The research methodology employed in this paper can be divided into two principal stages:

(1) secondary research. We conducted a thorough review of academic literature. We also reviewed public policies and programmes and market research reports; and (2) data analysis, studying political, economic, socio-cultural and technological factors (PEST analysis).

## **Factors determining the development of digital skills for the labour market in the EU. PEST analysis**

### **1. Political factors**

#### **1.1. EU policies and programmes for digital skills for the labour market**

With the digitisation of the economy as a global trend in the last decade and more significantly during the last 5 years, the European Union recognises that “*the digital transformation is structurally changing the labor market and the nature of work. There are concerns that these changes may affect employment conditions, levels and income distribution*”<sup>1</sup>.

During the last 10 years, the European Union has launched a series of programmes and political initiatives to boost the digitisation of the economy, only to realise that the area of digital skills and competences for the labour market is lacking. According to the data of the European Commission, “*currently (in 2018-n.a.), 44% of European citizens do not have basic*

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<sup>1</sup> <https://ec.europa.eu/digital-single-market/en/policies/digital-skills>

*digital skills. 37% of people in the labour force—farmers, bank employees, and factory workers alike—also lack sufficient digital skills, despite the increasing need for such skills in all jobs”<sup>1</sup>.*

Consequently, the European Commission issued a number of political documents, programmes and actions aimed at improving the digital skills of the workforce.

In **2008**, the European Commission issued the document “**New Skills for New Jobs**”<sup>2</sup> (COM (2008) 868) because of the growing need for digital competences in Europe. In this document, the European Commission recognises the increasingly important role of digital literacy and basic and advanced digital skills.

In **2010**, the European Commission launched the **Digital Agenda for Europe**<sup>3</sup> (COM (2010) 245), setting out a strategy for the development of a European Digital Europe 2010-2020. The Digital Agenda for Europe outlines what actions need to be taken by the EU, one of them being “Improving Digital Skills, Competences and Inclusion”.

In **2013**, the European Commission launched the “**Grand Coalition for Digital Jobs**”<sup>4</sup>, a multinational and multisectoral platform, including public and private organisations, companies and education providers with the aim to develop digital competences in Europe and job vacancies in information and communication technology.

In **2015**, the European Commission drew up the strategy for a **Digital Single Market in Europe**<sup>5</sup> (COM (2015) 192), which underscores the need to create, inter alia, an inclusive digital society in which citizens have the digital skills they need to benefit from the opportunities offered by the online environment, but especially to increase their chances of getting a job.

In **2015**, the European Commission also launched **The Digital Competence Framework 2.0**<sup>6</sup> (DigComp 2.0), which identifies 5 key components of digital competence for citizens: (1) information and data literacy; (2) communication and collaboration; (3) digital content creation; (4) safety; and (5) problem-solving. These are basic digital skills individuals should have for personal internet/online use. These skills are also more and more required in the workspace as general “default” competences.

In **2016**, European Commission launched the **Digital Skills and Jobs Coalition**<sup>7</sup>, which brings together Member States, companies, social partners, non-profit organisations and education providers to tackle the lack of digital skills in Europe.

In **2016**, the European Commission also launched the **New Skills Agenda for Europe**<sup>8</sup> (COM (2016) 381). This agenda emphasises the importance of developing human capital through the development of digital competences beginning in primary education. It also highlights the need for lifelong learning to prevent lagging behind in terms of skills, especially digital ones, which are constantly developing. The new Competence Agenda introduced the “Competency

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<sup>1</sup> <https://ec.europa.eu/digital-single-market/digital-skills-jobs-coalition>

<sup>2</sup> <https://ec.europa.eu/social/main.jsp?catId=88&eventsId=232&furtherEvents=yes&langId=en>

<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52010DC0245R%2801%29>

<sup>4</sup> <http://www.digitaleurope.org/Our-Work/Projects/Grand-Coalition-for-Digital-Jobs2>

<sup>5</sup> <https://ec.europa.eu/digital-single-market/>

<sup>6</sup> <https://ec.europa.eu/jrc/en/digcomp/digital-competence-framework>

<sup>7</sup> <https://ec.europa.eu/digital-single-market/en/digital-skills-jobs-coalition>

<sup>8</sup> <https://ec.europa.eu/social/main.jsp?catId=1223>

Guarantee” with the objective of helping low-skilled adults acquire a minimum level of numeracy and digital literacy and/or to access a secondary level of education.

Also in 2016, the European Commission published a communication on **Digitising European Industry**<sup>1</sup> (COM(2016) 180 final). A part of this document discusses digital skills, with a focus on preparing the human capital for the digital transformation of the workforce. Digitalisation is profoundly changing the labour market and the nature of work, with a significant impact on employment, income levels and income distribution.

In 2018, the Digital Skills and Jobs Coalition launched the following initiatives.

- The **Digital Opportunity traineeships scheme**<sup>2</sup> is a pilot project under Horizon 2020<sup>3</sup> and Erasmus Plus<sup>4</sup>, giving students and recent graduates an opportunity to get hands-on training in digital fields such as cybersecurity, artificial intelligence, coding or digital marketing.
- The **European Digital Skills Awards**<sup>5</sup> will recognise initiatives that have improved the digital skills of Europeans at school, at work, for ICT specialists, for girls and women and for society in general. The European Commission is particularly looking for success stories that could be scaled-up and replicated in other cities, regions, countries and sectors.

## 1.2. Qualifications framework

The **European Qualifications Framework**<sup>6</sup> (EQF) is a common European reference framework intended to make qualifications more readable and understandable across different countries and systems, useful, for example, in cases of professional mobility across EU countries. The core of the EQF is its eight reference levels that are defined in terms of learning outcomes, i.e. knowledge, skills and autonomy-responsibility. Learning outcomes express what individuals know, understand and are able to do at the end of a learning process. Countries are developing national qualification frameworks (NQFs) to implement the EQF.

The **International Standard Classification of Education**<sup>7</sup> (ISCED) was issued by the United Nations International Family of Economic and Social Classifications. ISCED is designed to serve as a framework to classify educational activities as defined in programmes and the resulting qualifications into internationally agreed-upon categories. The basic concepts and definitions of ISCED are therefore intended to be internationally valid and comprehensive of the full range of education systems.

While the European Qualifications Framework (EQF) and the ISCED-2011 refer to the levels of education (for example, primary education, secondary education, bachelor's level, master's level, doctoral level), the ISCED-2013 focuses on the fields of education and training. Thus, the banking sector falls under ISCED-2013-04 Business, Administration and Law, 0412-Finance, banking and insurance<sup>8</sup>, i.e. “the study of planning, directing, organising and controlling

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<sup>1</sup> <https://ec.europa.eu/digital-single-market/en/policies/digital-skills>

<sup>2</sup> <https://ec.europa.eu/digital-single-market/en/digital-opportunity-traineeships-boosting-digital-skills-job>

<sup>3</sup> <https://ec.europa.eu/programmes/horizon2020/en/>

<sup>4</sup> <https://www.erasmusplus.ro/>

<sup>5</sup> <https://ec.europa.eu/digital-single-market/en/news/european-commission-launches-european-digital-skills-awards-2018>

<sup>6</sup> <https://ec.europa.eu/ploteus/en/content/descriptors-page>

<sup>7</sup> <http://uis.unesco.org/en/topic/international-standard-classification-education-ised>

<sup>8</sup> <http://uis.unesco.org/sites/default/files/documents/international-standard-classification-of-education-fields-of-education-and-training-2013-detailed-field-descriptions-2015-en.pdf>

financial activities and services". Nothing is mentioned about the digital competences necessary nowadays for banking and financial activities.

To compensate, banks refer to the certifications issued by the International (European) Computer Driving Licences, but they are general and non-specific to the sector.

**European Computer Driving Licence<sup>1</sup>** (ECDL) is the European arm of the International Computer Driving Licence (ICDL)<sup>2</sup>, a computer skills certification platform offering basic, intermediate and advanced modules. The ECDL programme defines the skills and competencies necessary to use a computer and common computer applications that are most relevant to educational and professional requirements, thereby creating an ECDL profile for the user.

## 2. Economic factors

### 2.1. Employment—digital skills of the general workforce

The last decade has pushed digital technologies and digitisation into more sectors of the economy, not only in Europe, but also globally. A recent survey of competences and jobs in Europe, Cedefop (Cedefop, 2018) shows that 43% of EU workers have been involved in changing and/or replacing the technologies they use at work (i.e. machines and systems IT) over the past five years. At the same time, 47% of EU workers mentioned changes in current work patterns and processes, and more than half of the workers in Ireland, Malta, Slovenia, Finland, Sweden and the UK said they were affected by digital changes in their work environment (Cedefop, 2018). These changes have occurred, for example, in the way products and services are made (product/service innovation) and how they interact with customers.

It is true that most of the digitisation changes occurred in the ICT sector (with 57% of jobs being affected by digital technologies). However, digitisation is rapidly spreading to more economic sectors, as the Manika (2015) report found in the United States. A similar study conducted in 2014 by Cedefop in Europe (Cedefop, 2015) shows that roughly the same economic sectors are affected by digitisation in the EU and the United States. Digitisation is global and affects the worldwide economy accordingly, albeit with different rhythms of change.

Approximately one-quarter of EU staff consider that it is likely that over the next five years, their skills and use at work will no longer be up to date. The proportion of employees in this situation varies according to the economic sector in which they work: 29% in the ICT sector, 24% in the financial and insurance sectors and 23% in the professional, scientific and technical services sector (Cedefop, 2018). According to the same study, about 10% of jobs in the EU run a very high risk of becoming irrelevant because of the (digital) skills of employees. The most affected EU countries are Estonia (23%), Slovenia (21%) and Czech Republic (19%) (Cedefop, 2018).

### 2.2. Digital labour market prospective in the EU

It is estimated that structural changes in the labour market in Europe are closely correlated with the very high demand for advanced digital skills in the coming years. There is a strong

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<sup>1</sup> <http://ecdl.org/>

<sup>2</sup> <http://icdl.org>

correlation between the estimated number of jobs that will increase in the next ten years and the need for advanced digital skills to be applied in these occupations. In a survey conducted by Cedefop in 2015, 71% of EU employees mention that they need basic and intermediate ICT/digital knowledge to carry out their work and 14% of workers say they need advanced digital skills at work (Cedefop, 2018). Among the EU-28 countries, Denmark, Ireland and Sweden are those where over 80% of the workforce need basic digital skills to work, while in Greece, Cyprus and Romania, this percentage is 60% (Cedefop, 2018).

According to World Bank data (2016), the labour market in Europe is characterised by a strong polarisation of digital competence needs, so that whole population groups are virtually excluded from society and the digital economy. Thus, some European workforce categories do not really need ICT/digital knowledge to work (56% of workers in simple occupations, 25% of service and trade workers, 33% of workers in agriculture and 29% in hospitality and catering). For these categories of workers, manual skills are much more important. This is related to the use (or lack thereof) of digital knowledge in society. If an individual does not need and often does not use digital skills in the workplace, it is unlikely to require such skills for social activities. This can be explained, for example, by the relatively high percentage of the EU population with low digital literacy or lacking internet use. In particular, some EU population groups, such as the elderly, low-skilled workers and some female workers, do not occupy jobs requiring advanced ICT/digital skills.

To offset the exclusion of certain categories of citizens from the use of information and communication technology and digital technologies, many EU countries have developed and implemented compensatory learning and ICT training programmes, actively promoting digital inclusion and access to ICT. These programmes, however, mainly relate to the development of basic digital competences, and recent studies show that advanced digital skills, especially programming and code writing, will soon become essential requirements for employment (Berger & Frey, 2016). Even now, employees who use advanced ICT/digital skills at work have an hourly gain of about 3.7% more than those who only use basic ICT/digital competences (Cedefop, 2018).

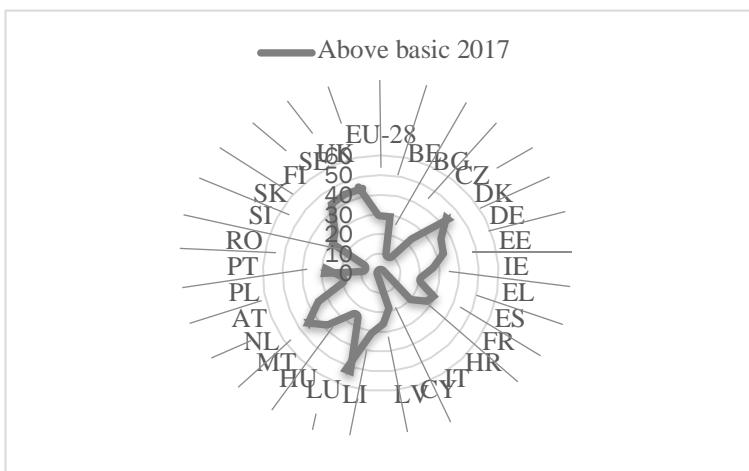
### 3. Socio-cultural factors

#### 3.1. Education level in the EU with regards to digital skills

The internet and mobile penetration is significant, their use by individuals is important, and there are many education and training programmes in place at European and national levels. However, there are still disparities between the EU Member States in terms of digital skills.

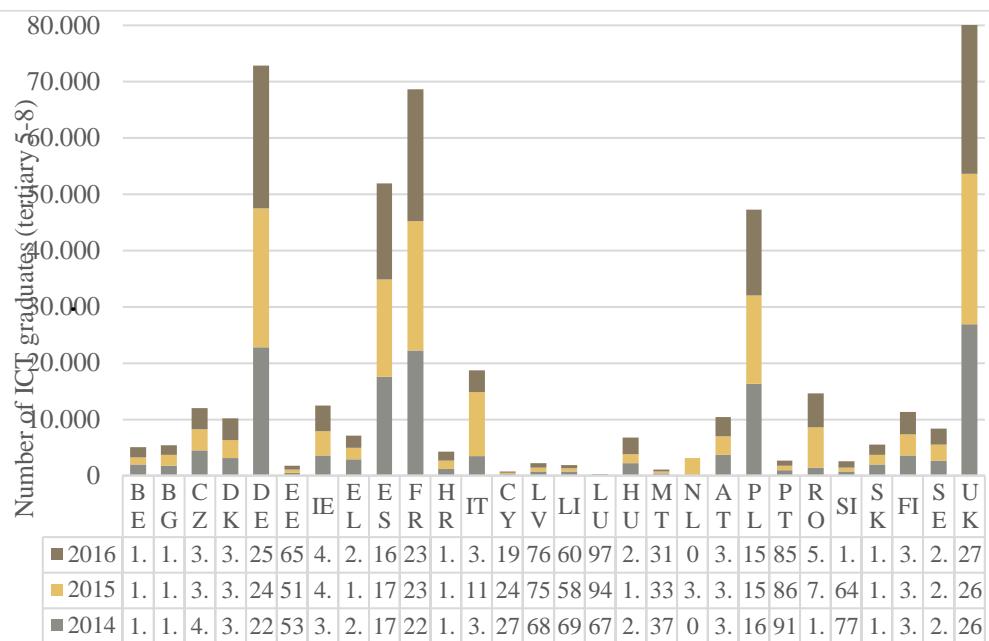
- **Individual level of digital skills.** According to Eurostat, in 2017, the countries with the highest percentage of their population having above basic digital skills were Luxembourg (55%), Netherlands (48%), Denmark (47%), Sweden and United Kingdom (both with 46%) and Finland (45%) (Figure 1).

**Figure 1. Individual levels of digital skills in 2017**



Basic or above basic overall digital skills represent the two highest levels of the overall digital skills indicator measured by Eurostat, which is a composite indicator based on selected activities performed by individuals aged 16-74 on the internet in four specific areas (information, communication, problem-solving, content creation). It is assumed that individuals having performed certain activities have the corresponding skills; therefore, the indicator can be considered a proxy of the digital competences and skills of individuals.

- **ICT graduates.** Over the period 2014-2016 (the latest data available on Eurostat were recorded for 2016), the EU countries with over 10.000 ICT graduates as a cumulative number over the three years were United Kingdom, Germany, France, Spain, Poland, Italy, Romania, Finland, Ireland and Czech Republic (Figure 2) (Source: Eurostat). The numbers reflect the graduates of tertiary education levels 5-8, according to ISCED-2011. No data were available in the Eurostat database for years 2014 and 2016.



**Figure 2.** Number of ICT graduates (levels 5-8 ISCED 2011)

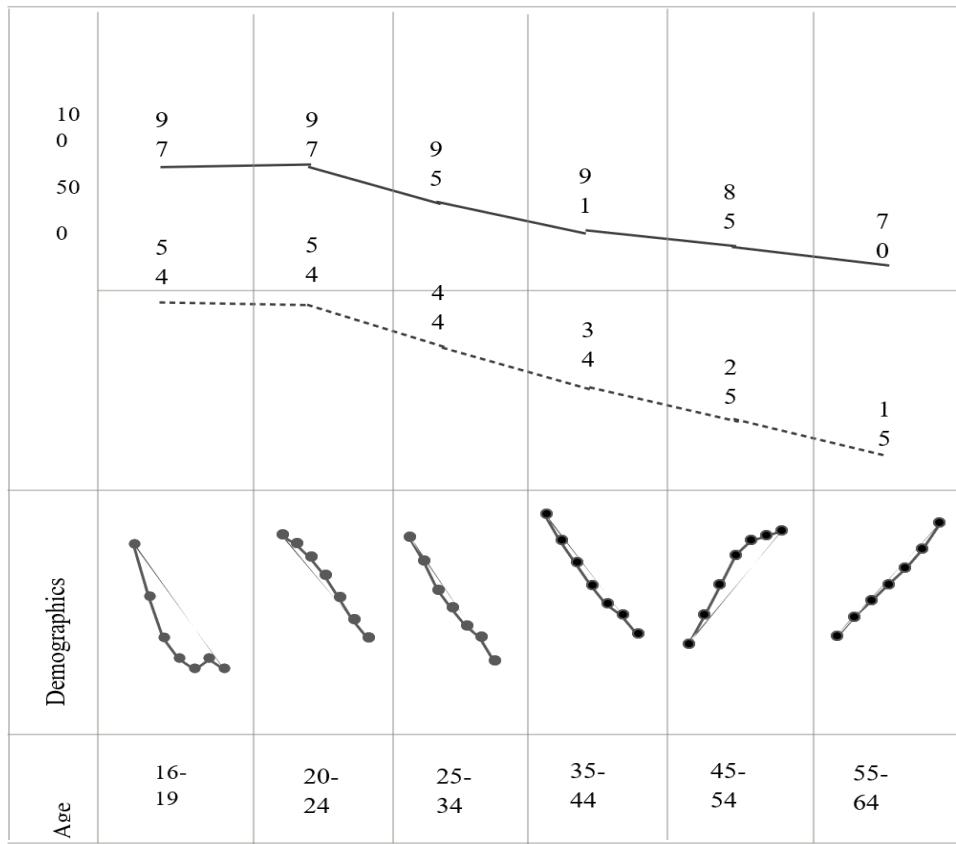
A first observation of the data in Figure 2 is that in most EU countries, the number of ICT graduates has increased from 2014 to 2016, in good correlation with younger generations more skilled and more interested in information and communication technologies. On the other hand, when the number of ICT graduates is correlated with the labour market and economic productivity across Europe, it can be noted that some countries do not reap the full benefits of the ICT training and ICT specialists they educated. At a macro level, this phenomenon leads to Europe still lagging in ICT/digital technologies at a global scale.

According to Atkinson (2018), with the emergence and rapid adoption of digital technologies (artificial intelligence, robotics, the Internet of Things), the fact that Europe still lags behind US economic growth shows that ICT—as both operation technologies and skills—are inefficiently used in different EU countries. Moreover, Atkinson says that the adoption of ICT, especially the digital technologies connected to the 4<sup>th</sup> industrial revolution, is key to fixing Europe's lagging productivity. This cannot be achieved without adequate digital skills and ICT training.

The younger generations possess the highest level of digital skills and use internet the most, but the demography shows that these age groups are shrinking (Figure 3) (Source: Eurostat). The only age groups with increasing numbers are 45-54 and 55-64 years old, those who are still employed and those who face the rapid transition to a digital workplace. However, these demographics show the lowest values in terms of both digital skills and internet use (Figure 3). Based on data from Eurostat, we calculated the demographic evolution for the period 2011-2017. We also calculated the central tendency for individuals with above basic digital skills (as a percentage of the total population) and of individuals using the internet over the last 3 months prior to the Eurostat survey (as a percentage of the total population). The values for

the indicators “Above digital skills” and “Internet use last 3 months” are calculated as central tendency (mean).

**Figure 3.** Synthetic view of digital abilities per age group (2011-2017)



### 3.3. Attitudes towards digitalisation and digital skills

In 2017, the European Commission published the results of a survey carried out in March 2017 across all 28 Member States about the perceived impacts of digitisation<sup>1</sup>. Some 28.000 EU citizens from different social and demographic categories were interviewed face-to-face at home in their native language. The data collected by the Eurobarometer survey are public, and for the purpose of this paper, we analysed it using the database published on the EU Open Data Portal<sup>2</sup>.

- **Attitudes towards the digital technologies.** Most of the EU citizens surveyed have a positive attitude towards digital technologies and their impact on the economy (75% of respondents), quality of life (67% of respondents) and society (65% of the respondents). The countries that consider that the digital technologies have a very positive impact on the

<sup>1</sup> <https://ec.europa.eu/digital-single-market/en/news/attitudes-towards-impact-digitisation-and-automation-daily-life>

<sup>2</sup> [http://data.europa.eu/euodp/en/data/dataset/S2160\\_87\\_1\\_460\\_ENG](http://data.europa.eu/euodp/en/data/dataset/S2160_87_1_460_ENG)

**economy** are Malta (40% of respondents), Lithuania (30% of respondents), Germany, Czech Republic, Slovenia, Cyprus (29% of respondents in each country) and Bulgaria (28% of respondents). We also observed that individuals with higher levels of education have a more positive attitude towards the impact of digital technologies.

- **Attitudes towards digital skills.** Most respondents (71%) of all countries consider they have sufficient basic digital skills for **daily life activities**. However, only 47% of the age group 55-64 have basic digital skills needed for daily life, compared to 81%-92% among younger respondents.

In terms of digital skills for the **labour market**, most respondents (80%) across Europe consider they have sufficient digital skills to do their jobs. We made here the same observation as for the case of digital skills for daily activities (consistent with the analysis presented in Figure 3). Only 67% of respondents aged over 55 consider they have enough digital skills to perform their current jobs, compared to 79%-85% of younger respondents.

Facing the necessity of continuous training for updating and improving their digital skills for the labour market, most respondents in the EU (64%) consider themselves sufficiently skilled to benefit from digital and online learning opportunities, with the same notable difference between the age groups: 40% for respondents over 55 compared to 72%-89% of younger age groups.

Younger respondents consider they have appropriate digital skills to be able to change their jobs and use digital technologies in the new jobs (85%-72% compared to 47% of those over 55). Moreover, the respondents with higher levels of completed education feel more prepared and are more confident about using digital technologies in a new workplace (84% of those with the highest education level compared with 40% of those with the lowest education level).

#### 4. Technological factors

##### 4.1. Internet penetration

In 2017, the EU countries with the highest percentage of households having internet access were Netherlands (98%), Denmark and Luxembourg (97% each), Sweden (95%), Finland and United Kingdom (94% each) and Germany (93%) (Source: Eurostat).

##### 4.2. ICT usage in companies

**Integration of internal processes.** Information and communication technologies (ICT) are increasingly used by organisations in Europe as part of their internal operational processes, such as radio frequency identification (RFID) technologies and/or enterprise resource planning (ERP) software. For example, RFID technologies are used for after-sales product identification or as part of the production and service delivery process, for person identification and access control, for monitoring and control of industrial production, for supply chain and inventory tracking and tracing, and for service and maintenance information and asset management. Enterprise resource planning software is used to share information on sales/purchases with other internal functional areas. Other ICT-type technologies used by enterprises are customer relationship management (CRM) to analyse information about clients for marketing purposes and to capture, store and make available clients' information to other business functions.

An analysis of the use of ICT in companies across Europe in 2017 (all enterprises—10 persons employed or more, not in the financial sector), shows that countries with a high ICT integration in the internal processes are Belgium, Finland, Germany, Spain, Cyprus, Netherlands, Luxembourg and Austria (Table 1) (Source: Eurostat).

**Table 1. Enterprises integration of ICT technologies in internal processes (calculated as percentage of enterprises for 2017, 10 persons employed or more, not in the financial sector. No data are available for the financial sector)**

Country	RFID	ERP	CRM
EU-28	12	34	33
Belgium	21	54	43
Bulgaria	18	23	19
Czech Republic	8	28	19
Denmark	9	40	36
Germany	16	38	47
Estonia	12	28	24
Ireland	11	28	33
Greece	7	37	20
Spain	15	46	37
France	11	38	28
Croatia	14	26	20
Italy	13	37	31
Cyprus	14	35	42
Latvia	9	25	17
Lithuania	10	47	33
Luxembourg	18	41	39
Hungary	7	14	14
Malta	15	29	26
Netherlands	18	48	47
Austria	19	40	43
Poland	9	26	23
Portugal	11	40	24
Romania	7	17	14

Country	RFID	ERP	CRM
Slovenia	15	30	25
Slovakia	18	31	24
Finland	23	39	39
Sweden	12	31	35
United Kingdom	8	19	32

**Integration with customers.** Companies engage much more easily and faster with customers by employing ICT and digital technologies. Thus, companies send and receive eInvoices that are suitable for automated processing, and they automatically link their business processes to those of their suppliers and/or customers. Data are incomplete in Eurostat, but from the information available, it is apparent that in 2017, the EU countries that were sending eInvoices suitable for automated processes were Spain (32% of all enterprises with more than 10 persons employed), Lithuania (24%) and Estonia (20%) (Source: Eurostat). No data were available for financial services.

**Cloud computing services.** More and more companies use the internet as a source for services or delocalised work. Companies can buy cloud computing services from shared servers or service providers, for example, e-mail or office software (e.g. word processors, spreadsheets, etc.). Equally, companies can use cloud computing to buy hosting for the enterprise's database, storage of files, finance or accounting software applications, customer relationship management software and computing power to run the enterprise's own software.

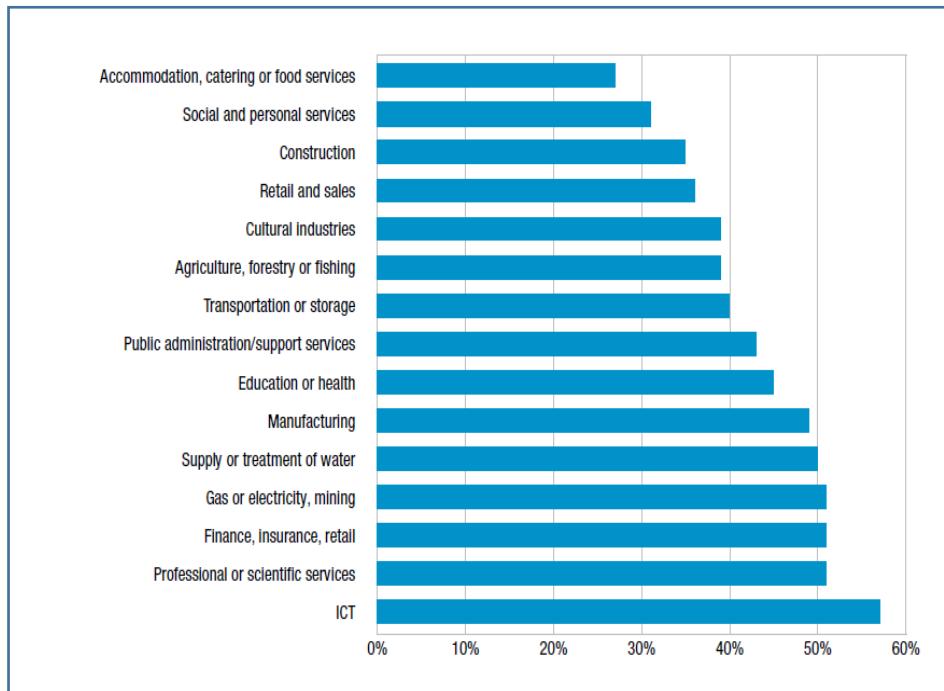
According to Eurostat, in 2018, companies in Finland most intensively used cloud computing (65% of enterprises with more than 10 persons employed, not in the financial sector), followed by Sweden (57%), Denmark (56%), Netherlands (48%) and Ireland (45%). The highest increases in using cloud computing services by enterprises from 2016 to 2018 were registered for Denmark and Netherlands (Source: Eurostat).

**Big Data analysis.** Nowadays, data are collected from all possible sources. The challenge, in terms of skills and abilities, is how to analyse and interpret them all. Companies can collect and analyse Big Data from any data source or can analyse their own Big Data generated by smart devices and sensors, geolocation of portable devices, social media or other sources. The analysis of Big Data can be done by the company's own employees and/or by an external service provider. Studies show that jobs such as "Big Data manager" or "Big Data interpreter" are very much needed, but they are, in fact, in short supply.

### Case study—Digital skills for the banking sector

Regarding the banking sector, both McKinsey (studies in the US) and Cedefop (studies in the EU) show that financial, banking and insurance areas will be strongly impacted by digitalisation not only on the operation side, but mostly regarding their workforce (Figure 4a, b) (Source: Cedefop, 2018; Manika, 2015).

**Figure 4a. Economic sectors in which digitalisation determined job changes affecting the workforce**



(Source: Cedefop, 2018)

At the April 2018 conference of the international Bank Governance Leadership Network, the banking workforce in the digital era was a priority topic. International bank leaders recognise that emerging digital technologies and applications, especially intelligent automation, are already changing the banking workforce and are expected to have a profound impact within 3-5 years (Tapestry Networks & EY, 2018). Many bank leaders expressed their points of view.

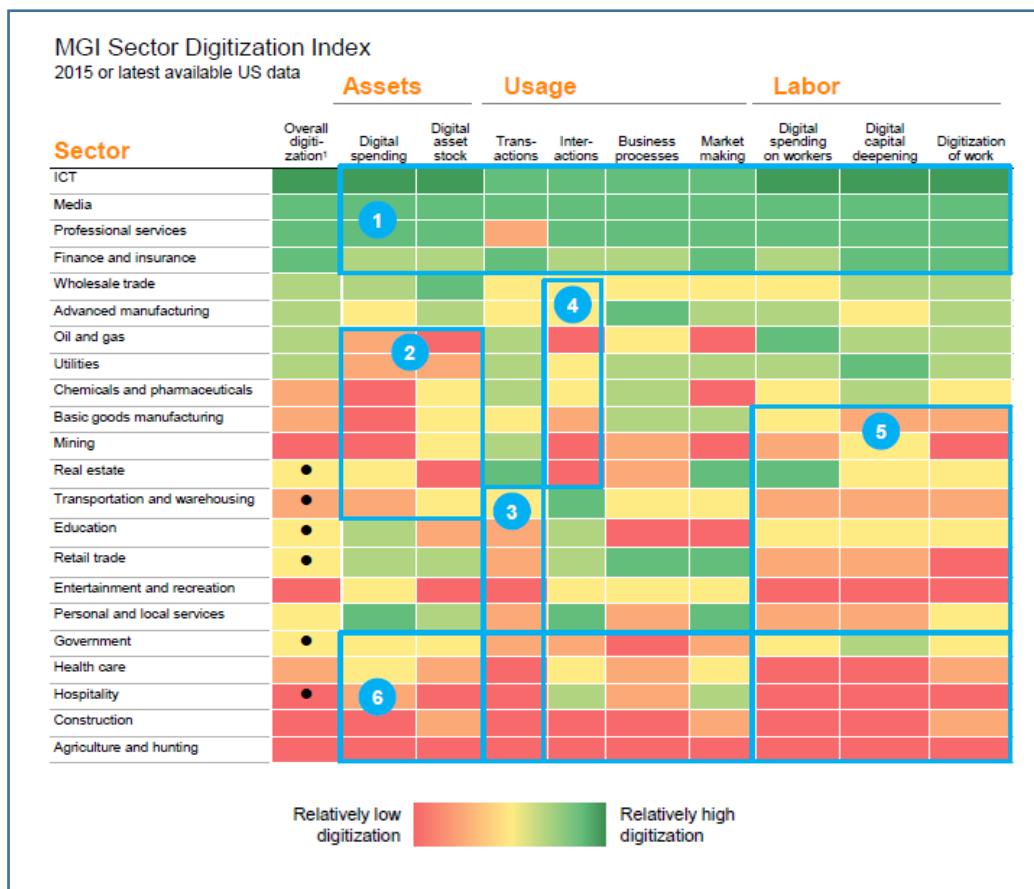
*"There is going to be digitisation of the workforce in a way we have never seen before. In 10 years, probably less, we will have substantially fewer employees, and the ones we do have will be significantly different from what we have now."* (Director)

*"We will not know what the bank of the future will be like until we feel our way there. It is clear, however, that one of the big governors of success will be our ability to bring in tech people and integrate them into the guts of the business."* (Director)

At the global level, banks are using more IT and digital technologies to improve both operating effectiveness and the customer's experience. Consequently, banks will need significantly more technology expertise than they have today. For example, the next challenge for the Australian banking sector is resources; according to Westpac CIO, the biggest roadblock for banks as they shift to digital models is finding the employees to do it (Brookes, 2018).

Finding, hiring and retaining talented and skilled bank workers have become essential to competing and innovating in the global environment. Banks fight for skilled people not only with their traditional sector rivals, such as financial and economic, but also against a new wave of competition from big technology companies and start-ups. Thus, it becomes obvious that the workforce is also changing in the banking sector, and bank leaders and managers are being forced to think differently about strategies to acquire talented and skilled workers.

**Figure 4b. Digitalisation of various economic sectors in the US in 2015 according to McKinsey Global Institute**



(Source: Manika, 2015)

According to the international bank leadership network, banks are now in the early stages of planning for workforce transformation (Tapestry Network & EY, 2018). Three challenges are considered essential for the hiring strategy: (1) preparing for technology-driven disruptions that could require massive retraining; (2) identifying the skills and expertise needed to compete in the future; and (3) attracting and retaining the people with those skills.

### **Digital labour market prospective in the banking sector**

Due to emerging and invasive technology, the nature of work in general and in the banking sector is changing. The change affects the number of workers that will be needed, the kind of skills necessary for working in banks and the banking career. Traditionally, bankers have followed a straight line up through one business or hierarchy. Nowadays, it is said that "*We fully expect people to have four or five 'careers' within the bank*" (Participant) (Tapestry Network & EY, 2018).

In the banking industry, employment is becoming more fluid. Most analysts expect tenure within any single firm to continue to decline. In the United States, the median tenure in 2016 for workers ages 25–34 was less than three years, compared with more than 10 years for workers in the 55–64 age bracket (US Bureau of Labour Statistics, 2016). Across Europe, there is variation in job tenure by country, but even so, between 2000 and 2014, job tenure for millennials trended downward (European Political Strategy Centre, 2016).

In the near future, bank workers who can perform different functions will be very valuable. In 2018, bank leaders recognised the need to "focus on people, not roles", emphasising the importance of creating agile teams with different mind-sets and skills.

### **Attitudes towards digitalisation in banks**

A PwC survey of approximately 4,000 consumers in the US carried out in 2018 shows a continuously growing trend for online banking activities. In previous years, people were choosing a digital interaction with their bank irrespective of the hardware, i.e. laptop, tablet or smartphone. The survey in 2018 shows, however, that people are choosing to use their smartphones more to digitally interact with their banks, what the PwC report calls "online-dominant consumers are becoming mobile dominant consumers—and everyone else is shifting that way, too" (PwC, 2018a).

According to another study of PwC from 2018, banks are facing a change of customer behaviour towards digital interaction (PwC, 2018b). The shift in consumers' attitudes is determined by factors such as more and better expectations, more information and more choices (PwC, 2018b). However, in addition to the attitude change, banks should consider other factors when designing their digital strategy. For example, people's preference for online and digital activities is globally pervasive. Moreover, generation Y (the so-called "digital natives") are now at the age of choosing their financial service providers, and for them, digital interaction with the bank is a decisive factor.

### **Conclusions**

The scale and consequences of digitalisation for the whole of European society are impossible to assess with precision at this time. We are truly facing a new industrial revolution that will

dramatically change our way of life and the workforce. With the digitisation of the economy as a global trend in the last decade and more significantly during the last five years, the European Union recognises that digitalisation changes the structure of the labour market, affecting employment and income distribution.

In the last decade, the European Union has launched many programmes and initiatives to encourage individuals to acquire digital skills necessary for both social and professional life. However, despite all efforts, according to the data published by Eurostat, currently 44% of people lack basic digital skills, while 37% of employees do not have the digital skills that would help them at work.

Over the last ten years, digital technologies have entered more and more sectors of the European economy. As a result, in 2017, 43% of EU workers were involved in changing and/or replacing the technologies they use at work (i.e. machines and systems IT). It is estimated that structural changes in the labour market in Europe are closely correlated with the very high demand for advanced digital skills in the coming years. There is a strong correlation between the estimated number of jobs that will increase in the next ten years and the need for advanced digital skills in these occupations.

The financial, banking and insurance areas will be strongly impacted by digitalisation not only on the operation side, but mostly regarding their workforce. At the global level, banks are using more IT and digital technologies to improve both operating effectiveness and the customer's experience. Due to the emerging and invasive technology, the nature of work in general and in the banking sector is changing. The change affects the number of workers who will be needed, the kind of skills necessary for working in banks and the banking career.

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## **Environmental Factors and Affective Well-Being Influence on Mine Workers Absenteeism in South Africa**

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### **Abstract**

Human resources remain the most important and valuable assets of every organisation. In effect, the strategic monitoring and management of related environmental factors and employees' affective well-being for continued presence at work are becoming increasingly fundamental. The mining industry is characterised with different environmental factors and affective well-being puzzle that may likely affect employees' turnaround time at work. While available studies have largely investigated how environmental factors predict employee's well-being, what is unclear is how environmental factors and affective well-being determines employee's absenteeism from work. Using a quantitative study, this study examines how environmental factors and affective well-being influence workers absenteeism in South African mine industry. A total of 280 mineworkers were randomly selected using a descriptive survey of the probability sampling technique. The retrieved data were analysed using both the simple and multivariate regression analysis. The findings revealed that both environmental factors and affective well-being do not predict mine workers absenteeism, although environmental factors show more variation in employee's absenteeism than affective well-being. Similarly, the different environmental factors including exposure to noise, dust, vibration, temperature and heavy lifting do not show any evidence to have predicted mine workers turnaround time at work, except hazardous materials. The study concludes that mitigating the consequence provoked by hazardous materials on mine workers will significantly increase employees' presence at work. Thus, the study makes a case for the revitalisation of the South African mining industry, especially in the area of setting out modalities for the control of strenuous environmental factors, particularly hazardous materials in the workplace.

**Keywords:** Environmental factors, well-being, absenteeism, mining industry, workers

### **Introduction**

Human resources remain the most important and valuable assets of every organisation. In effect, the strategic monitoring and management of related environmental factors and employees' affective well-being for continued presence at work are becoming increasingly fundamental. With evidence of increasing environmental degradation, the business environment is becoming highly susceptible to volatility, with ascending puzzles for organisations to remain competitive. One of the most fundamental effects of the changes emanating from the work environment is particularly evident on the functions and performance of human resources. In other words, the work environment possesses essential indicators that can engender either positive or negative consequences for the functionality of the human resources (El-Zeiny, 2013). The conceptual understanding of the environment conveyed an explicit interpretation of man's abrupt surrounding which he tends to employ for his advantage (Ajala, 2012). However, in the instance of wrongful engagement, the environment becomes hazardous and tend to obstruct both the wellness and performance of employees in the context of an organisation (Ajala, 2012; Kehinde, 2011). Making sense from this, it suffices to allude that the work environment is a marker for not only ensuring the safety of employees in the workplace but also connected to increasing the productivity of organisations. No doubt, the concept of environmental work factors' has been shown to neatly relate to employees motivation, physical and emotional well-being, and the success of the organisation (Mohd, Shah & Zailan, 2016).

The plethora of studies on work environmental factors have hardly resonated with employees' turnaround time at work, specifically within the mining industry. For instance previous studies have investigated workplace environment factors and employee's performance (Lankeshwara, 2016), workplace environment factors influence on employee engagement in a telecommunication company (Mohd, Shah & Zailan, 2016), impact of working environment and training and development on organisation performance through mediating role of employee engagement and job performance (Chaudhry, et al, 2017), and work environmental factors and performance of Liberians (Amusa, Iyoro & Olabisi, 2013). Evidence from these array of studies shows a gap in the link between work environmental factors and absenteeism. Similarly, the absence of literature has offered diverse analysis towards providing explanations to the conundrum of absenteeism in the workplace. To be sure, a large chunk of these studies have identified absenteeism as a bane for organisational performance (Sigh & Karodia, 2016), the impact of job satisfaction on absenteeism (Kehinde, 2011), and impact of staff absenteeism on patients satisfaction (Ducklay et al., 2014). However, what remains largely unknown is the tie between work environmental factors and employees absenteeism. Thus, one of the major contributions of this study is to provide an empirical explanation for the nexus between work environmental factors and absenteeism.

The concept of affective well-being is conceptualised as a divide between an individual positive and negative mood and emotions (Sageer, Rafat & Agarwal, 2012). The concern of being in a positive or negative affective well-being can be extended to provoke an understanding of employees stress level and workplace recognition (Kong & Zhao, 2013). In other words, ensuring employees' are in the right frame of affective well-being possess dual advantage for both the employees and the organisation (Drake, Sheffield & Shingler, 2011). Traditionally, the affective well-being discourse portends essential consequences for employees work performance. For instance, extant studies on the psychology of well-being are increasingly recognising the role of affective well-being as a precursor to organisational

growth (Ducklay et al., 2014; Madden, 2009). Therefore, the contention about affective well-being has established that work situation and the processes of adjustment are crucial indicators of negative affective well-being (Zeidner, Matthews & Roberts, 2012). There is a shared assumption that employees' with high negative affective well-being such that is explained by an alteration in moods or emotions can keep them away from work, yet, this assumption is lacking in empirical evidence. In essence, it is apposite to contend that people may ordinarily stay out of work due to other factors without having to do with the interplay between their moods and emotions. To support this position, existing studies on affective well-being have widely extended research exertions to understanding the nexus between affective well-being and work experience (Fernández-Berrocal et al., 2017), emotional intelligence (Sánchez-Álvarez, Extremera & Fernández-Berrocal, 2015) and work performance (Madden, 2009) with sparse focus on absenteeism.

Making sense from the above explanation, the main contribution of this study is to galvanise and interrogate environmental factors influence on absenteeism and affective well-being impact on absenteeism on the one hand, and the different types of environmental factors influence on absenteeism on the other. By advancing this discourse, it is possible to provide a more distinct understanding of the link between these variables with a view to chronicling a fresh perspective different from available studies. The mining industry is characterised with different environmental factors and affective well-being puzzle that may likely affect employee's turnaround time at work. Although with the composition and hazardous threat of the mining industry, hardly are there studies conducted not only on this discourse but with a narration from the mining industry. In view of this, the paper examines the rising influence of work environmental factors and affective well-being, and their effect on work absence through the lens of the mining industry. After a succinct background statement, the study presented empirical discussions. The third unpacks issues of methodology and design towards addressing the research problem. While the results of the study are explained in the fourth section, conclusions and policy implications are presented in the last section.

## Literature review

The reality of environmental factors influence on employees' turnaround time at work has continued to create various contentions among researchers, health commentators and other allied professionals. While the multifaceted environmental factors remains an undisputed influence on employees' absenteeism from work, recognising the most influential of these factors remain an ongoing academic exercise. More so, there can be no doubt, the verity that environmental factors influence workers differently as no human is the same. Thus the extent of influence is likely to exude disparity. Widely considered as a fundamental discourse, environmental factors have come to be classified as the most pivotal driver of organisational growth and employees work complacency (Amusa, Iyoro & Olabisi, 2013). Again, the affective well-being of employees' characterised by a swing between a positive and negative mood and emotions can undeniably influence their work outputs, but with little evidence to affect their presence at work (Sageer, Rafat & Agarwal, 2012). Put together, this section of the paper seeks to unpack the debates of environmental factors and its influence on employees' absenteeism from work on the one hand and the extent to which affective-welling affects employees' absenteeism from work on the other through empirical discussions.

## Interrogating environmental factors and employees' absenteeism

The attention on environmental factors or work environment has continued to provoke debates concerning its merit for an appealing workplace settings. Scholars have therefore make exertions to conceptualise the *leitmotif* of the work environment for a proper appreciation of its effects on employees' propensity to be absent from work or otherwise. There are also a substantial number of intellectual debates with respect to the context in which the concept of work environment should be used in the understanding of organisational growth, employees' commitment to work and subsequently the frequency of their presence or absence from work (Kehinde, 2012; Banks, Patel & Moola, 2012). For instance, Madsen, Tripathu, Borritz and Rugulies (2014) in their conceptualisation of work environment explain the concept as the constellation of the physical settings, job description and culture that characterised the environment in which people perform their daily work routine. However, each of these constructs has a nuanced effect on both the employees and the organisation. Again, an employee might be affected by the change in culture than the influence of physical work setting. In a similar but distinct perspective, Sageer, Rafat and Agarwal (2012) conceive work environment as the cluster of social, psychological, mental and physical settings that influences how people work. McCoy and Evans (2005) position refer to the work environment to a somewhat affable work area that engenders comfort and works complacency. Having this definition in mind, it is appropriate to clarify that a work environment characterised with the hazardous and unpleasant workspace cannot provoke a pleasant work experience, but instead, produce a debilitating work experience for workers. Going through extant literature, it is clear that the conceptualisation of work environment encompasses different constructs including but not limited to culture (language, beliefs, values and norms), employees job description, work conditions and physical settings. However, this study only focuses on the work conditions components of the environment such as exposure to noise, dust, vibration, temperature, heavy lifting and hazardous materials. The identification of these different components aptly justifies the choice of the mining industry in this study, which in no small extent, is characterised by exhaustive environmental conditions.

In a bid to narrow the concept of environmental factors to physical work settings, several research evidence have shown that environmental factors such as uncontrollable workplace noise, harmful dust, unhealthy vibrations and other hazardous materials have significantly impacted employees' commitment to work (Mike, 2010; Smith, 2011). Similarly, other allied studies have revealed the significant impact of the physical environment on the psychology and health of employees, as well as employees' performance output in the organisation (Amusa, Iyoro & Olabisi, 2013). For instance, Dilani's (2012) study explains that the physical work environment within the context of the manufacturing industries has shown to significantly influence the wellness of employees. Although, the mining industry is characterised with hazards related work, yet the need to ensure that the physical work settings are appropriately controlled for improved employees' health and continued presence at work cannot be overemphasized. McCoy and Evans (2005) highlighted the nexus between employees' consistent exposure to vibration and workplace temperature on the one hand and their physical, physiological and mental wellness on the other. In other words, this could, in turn, affect employees' social relationship and level of interactions in the workplace. To be sure, work environment studies have shown how the array of work environmental factors affects employees' attitude and other behavioural dispositions in the workplace (Briner, 2000; Leblebici, 2012). Again, workplace noise and untidiness have both been proved as a lead environment condition engendering job stress and waning productivity (Cristofoli, Turrini &

Valotti, 2011). To place this assertion fittingly, the extreme level of distractions provoked by workplace noise such as uncontrollable work equipment, a high volume of music by employees has attracted severe productivity lost for many organisations.

Naharuddin and Sadegi (2013) rightly confirm the negative effects of music on work productivity. In addition, Ajala (2012) conceptualises that aside from the challenge of discomfort, exposure to noise within the workplace has been proved as a source of stress and distraction to achieve optimal organisational productivity. In contrast, it is not far-fetched to assert that although exposure to noise tends to provoke discomfort and stress, on the one hand, noise emanating from music could be utilised as a stress relieving mechanism. To support this claim, Padmasiri and Dhammadika (2014) thesis exude significant relationship between music (in this context, background music) and employees' improved productivity. Thus, what should be conceived as exposure to noise seems unclear. Perhaps, the choice of loud music can be conceived as exposure to noise in this instance. Chandrasekar (2011) reports that exposure to high work temperature has a significant effect on workers mood and energy to reports for work. To be sure, while exposure to severe work temperature has not only affected employees' psychological and physical attributes, it has also coalesced with the bane of increased turnover rate (Ajala, 2012).

In a related argument, other work environment studies have also shown how poorly constructed workstations, poor ventilation from closed offices and lack of safety measures have affected workers propensity to work (Naharuddin & Sadegi, 2013; Roeloeolofsen, 2002). Accordingly, the conditions of the physical settings in the workplace have been shown as a great consideration with regard to employees continued presence at work (De Klerk & Mostert, 2010). This is sufficed to argue that the physical work environment plays a fundamental and sacrosanct role in determining the wellness and frequency of employees to work. Rich, Lepine and Crawford's (2010) study explain that the role and commitment of organisations to a conducive physical work environment can be employed to achieve a working and supportive work environment for improved job involvement on the part of the working people. In effect, to determine the extent of how employees are involved with their job on the one hand, and their willingness to always be present at work on the other, the physical work environment must be well situated. While several studies have revealed the significance of reward as a motivational tool for employees improved productivity and continued presence at work, Ayres's (2005) study adds to the existing contention by exuding that the environmental factors possess important attributes not only to motivate employees to work but more importantly to align with the goals of the organisation by supporting the organisations strategic objective. In other words, it is important that managers are able to identify the most crucial of the physical work settings within the structure of an organisation that could deter employees continued presence at work (Chaudhry et al., 2017). Thus, the work environmental factors must be managed in such a way that aligns with the needs of workers for continued work presence.

The role of employees in ensuring a conducive work environment can also not be overemphasized. While the remit of the organisation are important contributions to ensuring workers are not deterred from the workplace due to poor organisation work settings, the input of the workers is also important milestones. For instance, Eisenger's (2013) study identified the importance of employees' participation and communication as crucial measures of safeguarding the safety of the work environment. Therefore, participating in issues of

workplace safety and communicating about them possess numerous advantage for averting negative effects of environmental factors on the working people (De Klerk & Mostert, 2010). Having discussed the subject of environmental factors and absenteeism, the next section of the review unpacks affective-wellbeing and absenteeism.

### **Affective well-being and absenteeism discourse**

The conceptualisation of affective well-being is generally understood as a swing between an individual mood and emotions. Specifically, the concepts explicate the nexus between having a positive or negative mood and emotions, which can be triggered by situational factors. However, they have been different clarifications on what it means to be in a particular mood or emotional state. For instance, being in a particular mood can be explained by generalised affective states (Indregard, Knardahl & Nielsen, 2016). Precisely, while the constellation of factors may be present to influence an individual mood, the mood itself is not fixed on any exact object (Fernández-Berrocal, Gutiérrez-Cobo, Rodriguez-Corrales & Cabello, 2017). This been said, emotions, in contrast, can be understood as some responses to specific situations (Hülsheger & Schewe, 2011). The literature is awash with discussion on factors that can predispose employees to be absent from work. The absence literature on its own is replete with discussions, both internal and external, to the organisation as probable factors of absenteeism (Zapf, 2002).

Nevertheless, in the discourse of employees mood and emotions (affective well-being), sparse research exertions are reported in the literature. Although existing studies on this subject have attempted to establish a spotlight on how affective well-being can be a condition for employees' absence from work. However, this on-going contention remains unending as the conceptualisation of affective well-being concerning the determinants of an individual moods or emotions remains largely ambiguous.

In contrast, a growing number of studies have rightly reported that workers mood in the workplace may directly or indirectly determine their appearance (Mérida-López & Extremera, 2017; Madden, 2009). This position can further be explained by the analogy that employees' with a good feeling about their selves on the one hand, and the accompanying good feeling that nourishes their presence at work on the other hand are crucial indicators that could propel them to come to work. Empirical studies have established that as humans, we always strive to attain positive affective well-being by avoiding negative affective states (Sánchez-Álvarez, Extremera & Fernández-Berrocal, 2015). This conveys the conviction that people ordinarily work towards avoiding situations that could engender negative affect. Rajbhandary and Basu's (2010) study on working conditions and absenteeism found out that when employees experience positive affect at work, they are more probable to come to work, and less of being absent. The study further argued that the magnitude of employees experience of negative affects at work, the more likely it is that they could be absent from work. However, this, to an extent, does not largely explain that employees' mood or emotions (affective well-being) are predictors of work absenteeism. The absence literature in itself is confounded with an array of possible factors causing work absenteeism. Furthermore, other related studies have tend to express that the need for a well-grounded understanding of affective well-being is neatly tied to personality (De Boer, Bakker, Syroit & Schaufeli, 2002). For instance, alteration in individual's mood or emotions have been occupying the literature on personality studies. In effect, an individual personality forms a major predictor of how his or her affective well-being

can be controlled in the workplace (Ducklay et al., 2014). In addition, Ducklay et al.'s study highlighted the lack of effective control of our personality as a poser for bad affective well-being (Ducklay et al., 2014).

Absenteeism discourse within the context of work explains an individual's inability to show up for work as planned (John, 2010). Employees' absence from work has the as a major contributor to dwindling workplace growth with ensuing consequences for the individual worker, the organisation and society at large (Gaudine & Gregory, 2010). With evidential consequences of absenteeism, the understanding of variables other than those within the contextualization of internal and external factors is crucial for a robust appreciation of why people fail to report to work. Related studies have shown that emotional or mood affect (which to an extent may not be provoked by work-related issues) may further reduce the necessary resources employees' require to carry along with the array of workplace emotional demands (Lokke, Eskildsen & Jensen, 2007). Taken together, therefore, employees may become emotionally exhausted due to the discrepancy between emotional demands and the existing resources to manage and control such demands (Kim & Garman, 2003). To be sure, regulating and controlling emotions and mood (affective well-being) no doubt entails a process that does not only drain employees mentally but includes the possibility of becoming strain at work (Zapf, 2002). Maybe then, this assumption can be somewhat positioned as an argument that employees are likely to be absent from work owing to emotional strain as a result of exposure to workplace strain. However, the debates concerning the understanding of what makes up individual emotions or mood (affective well-being) as a predictor of absenteeism are somewhat inconclusive.

## **Methodology and Methods**

This section of the paper explicates the different methodological approach and methods used to understand how environmental factors and affective well-being influence mine workers absenteeism. The study intensifies on the importance of establishing the nuance between methodology and methods as erroneously used interchangeably in peer-reviewed journals. Therefore, research methodology, as used in this study, explains the complete procedural steps through which the complete study is undertaken (Saunders, Lewis & Thornhill, 2009). The methodological issues in this study shoulders on the question of what, when and the how of the investigation on the one hand (Sekeran & Bougie, 2016).

On the other hand, the research methods evidence in this study captures different techniques, including data instrument and the various analytical tool (s) (Wilson, 2010). The study adopts the descriptive survey design and relies only on the quantitative research method. The descriptive survey was employed to sample the population of mine workers. Specifically, a large population of mineworkers requires a representative sample wherein generalisation of findings can be engrossed in the entire study population (Quinlan, 2011). To this end, the assumption of the descriptive survey design aptly corroborate with this intention and correspondingly justifies its adoption in this study. The study population comprised of mineworkers selected across the different strata of the organisation without preference to any particular units of the organisation. This lends credence to the adoption of the simple random technique in the recruitment of participants for this study. To do this, a total of 280 mineworkers were randomly selected from the population of mineworkers in which preference was not accorded to any particular worker to be selected as a sample. In other

words, the 280 sample of participants reflects a saturation after exhaustive fieldwork exercise. Thus, this number is justified and suffice to make generalisation ensuing from the findings of the study on the entire population of mineworkers under study (Babbie, 2010). The research instruments consist of three measuring scales employed to measure environmental factors, affective well-being and absenteeism.

The two independent variables (environmental factors and affective well-being) were extracted from the fatigue management questionnaire (Ergomax, 2015). For this study, only six (6) inter-item environmental factors constructs including exposure to noise, dust, vibration, temperature, heavy lifting and hazardous materials were utilized with three (3) Likert scale measurement of low, medium and high, while the affective well-being scale consists of 12 inter-item constructs with five (5) Likert scale of measurement including rarely, not often, sometimes, rather often and very often (Copper & Schindler, 2008). On the other hand, the behaviour absenteeism questionnaire developed by Isaksson et al. (2003) was employed to measure employees work absenteeism. The behaviour absenteeism questionnaire consists of four (4) items spread on a five (5) Likert scale of measurement. In ensuring the reliability of the different constructs (independent variables), the Cronbach Alpha was employed to ascertain the internal consistency of all the items contained in both the environmental factors and affective well-being scales. The reliability index for both variables shows inter-item reliability of 0.759 and 0.863, respectively. These reliability coefficients according to the rule of thumb are satisfactory, good and reliable (Konting, 2004; Pallant, 2011). Accordingly, data gathered were analysed with the Statistical Package for the Social Sciences (SPSS). Specifically, both simple and multiple regression analyses were employed to test the different degrees of research propositions. On the one hand, the simple regression was utilised to analyse the influence of environmental factors on absenteeism; on the one hand, and the influence of affective well-being on absenteeism the other hand. Besides, the multivariate analysis was utilised to understand how the different environmental factors (exposure to noise, dust, vibration, temperature, heavy lifting and hazardous materials) predict absenteeism.

## Results

Table 1 explains how environmental factors and affective well-being predict mineworkers' absenteeism from work. From the analysis conducted, and specifically in Model 1, environmental factors does not predict mine workers absenteeism from work ( $p>0.05$ ). This is suffice to highlights that work environmental factors in the mining industry does not determine employees' absence from work or prove as criteria to measure their frequency at work. To be clear, although the familiar axiom that the mining industry working environment possesses severe threats to employees' cannot be substantiated from this result. What is clear, however, is the position that the threats or otherwise emanating from the mining industry work environment does not in any way predict employees' absence from work, except can otherwise be explained by other factors including job description, culture of the organization (Tripathu, Borritz & Rugulies, 2014), and other issues related to employees social, psychological and mental wellness (Sageer, Rafat & Agarwal, 2012). In addition, in examining if employees' affective-well-being predict their absence from work, Model 2 equally shows that affective well-being does not influence employees absence from work ( $p>0.05$ ). Therefore, employees' absence from work cannot be explained by their moods and emotions (affective well-being). While the literature cannot precisely explain the cause of mood or

emotional swing, it is logical likewise to argue that mine workers absence from work cannot be explained by issues of mood or emotional affect. Although, this findings exude a departure from prevailing studies, it has however, somewhat provide empirical support and a nuanced perspective that mineworkers absence from work can be explained by other contingency such as the experience provoking from work situations and employees personality among other variables (Sánchez-Álvarez, Extremera & Fernández-Berrocal, 2015; Ducklay et al., 2014 ).

**Table 1**

***Regression analysis with absenteeism as a dependent variable, environmental factors and affective well-being as independent variables***

Model	Coefficients		Beta	t	Sig.
	Unstandardized Coefficients	Standardised Coefficients			
1 (Constant)	4.810	1.024		4.698	.000
Environmental factors	.070	.030	.157	2.355	.019
2 (Constant)	2.180	1.243		1.754	.081
Affective wellbeing	.064	.029	.143	2.194	.029

\*Statistically significant at p<0.05

Dependent variable: absenteeism

Table 2 shows how absenteeism is regressed against the different levels of environmental factors. From this result, Model 1, 2, 3, 4 and 5 (exposure to noise, dust, vibration, temperature and heavy lifting) does not show any prediction of mineworkers absenteeism from work ( $p>0.05$ ), while only Model 6 (hazardous materials) explains a prediction in mine workers absence from work ( $p<0.05$ ). However, only exposure to noise and vibration exude the largest contribution to the model ( $\beta=.192$ ,  $p>0.05$ ) and ( $\beta=.134$ ,  $p > 0.05$ ). Making sense from this, it can be explained that exposure to noise and vibration jointly show the lowest prediction of the possibility of mineworkers absenteeism from work. This finding further explains that the traditional workings of the mining industry characterised with noise and vibration emanating from rock blasting and other mining operations can hardly keep workers away from work. Again, evidence ensuing from this study negate the position of other related studies where exposure to noise, dust, vibration, temperature and heavy lifting are presented as likely influence on absenteeism (Mike, 2010; Smith, 2011). The finding showing hazardous materials influence on mine workers absenteeism is largely supported by relevant studies (Dilani 2012; Kehinde, 2011). Therefore, the position that hazardous materials influences mining workers absenteeism from work to an extent is not far-fetched as work execution in the mining industry is characterised with heavy blasting and geographical extraction of minerals such that it engenders hazardous materials.

**Table 2**

***Multiple regression analysis with absenteeism as a dependent variable, exposure to noise, dust, vibration, temperature, heavy lifting and hazardous materials as independent variable (environmental factors)***

Coefficients

Model	R	R Square	Adjusted R Square	F	Standardised Coefficients		Sig.
					Beta	t	
1	.192 <sup>a</sup>	.037	.033	10.670	.192	3.267	.175
2	.211 <sup>b</sup>	.044	.037	2.152	.109	1.467	.144
3	.237 <sup>c</sup>	.056	.046	3.495	.134	1.870	.063
4	.244 <sup>d</sup>	.059	.046	.914	.059	1.956	.340
5	.262 <sup>e</sup>	.069	.052	2.774	.106	1.665	.097
6	.274 <sup>f</sup>	.075	.055	1.849	-.089	-1.360	.001*

\*Statistically at p<0.05

a. Dependent Variable: Absenteeism

## Discussion

On examining the impact of environmental factors and affective well-being on mine workers absenteeism, and evaluating how the different environmental factors predict absenteeism, the finding relating to the influence of environmental factors on mine workers absenteeism emerged as the most crucial contributions of this study. While available studies have predicted environmental factors including exposure to noise, dust, vibration, temperature and heavy lifting as probable suggestion for work absenteeism, the current study explains a departure from these studies. However, the case of hazardous materials tends to equally exude a different research outcome. To be sure, in this study, while other environmental factors could not explain mine workers absence from work, hazardous materials, however, shows great prediction of absenteeism behaviour among mine workers. Another positive reflection of this study is niched with the argument that investing in the management and control of hazards in the South African mining industry can help reduce the rate of mine workers' absenteeism. Yet, among the constellation of environmental factors, this study highlighted that mine workers exposure to noise and vibration shows the least prediction of absenteeism. These result reflects yet another important finding. For instance, with the structure and work arrangement of the mining industry characterized with rock blasting, it is expected that this process engender noise and vibration such that could have an impact on the working people, to extent that can make them stay away from work. Furthermore, findings relating to affective well-being and mine workers absenteeism cannot be established. After all, this finding supports other empirical contention that absence from work has little or nothing to do with employees'

state of affective well-being. This finding goes further to validate the position that employees' mood or emotional affect is inconsequential to the frequency of work absence. Although, it can be argued that issues not related to affective well-being including work description and employees' personality could account for their absence from work. Moreover, as argued earlier, there is a need for a fuller concentration on issues of organizational context including how work are being executed and other workplace recognition for a reduction in mine workers absence from work than an exposition of mood or emotions.

### **Conclusions, recommendations and further research**

The constellation of issues around employees' absence from work has continued to attract debates. These array of issues have remained unable to provide empirical supports for why people are absent from work. The present study extends the frontiers of this discussion by examining how environmental factors and affective well-being influence a mine workers absenteeism. The mining industry is, to an extent, characterised by different work configurations such that could engender a somewhat unpleasant working conditions. The range of issues addressed in this study include a scrutiny of how environmental factors influence mine workers presence or absence from work, how mineworkers mood or emotional affect (affective well-being) explains their absenteeism from work, and the identification of different levels of environmental factors (exposure to noise, dust, vibration, temperature heavy lifting and hazardous materials) influence on mineworkers absence from work. The finding uncovered, however, explains a somewhat different argument from existing studies. The mineworkers mainly explained that environmental factors do not explain their reason for being absent from work. The study concluded that mine workers absence from work is somewhat not related to issues arising from the workplace environmental factors; perhaps this can be explained by more personal issues such as employees' social and psychological states.

Similarly, affective well-being explained by mine workers mood or emotional state does not explain their absence from work. This revelation supports the argument that being in a certain mood or emotion cannot be explained by any known factor. As such, the expectation that mine workers mood or emotional state can prevent them from showing up for work cannot be equally linked. In other words, this study concluded that why mood or emotions are intrinsically explained, it could have less influence on why people should be absent from work than other extrinsic causatives factors. However, other evidential explanations such as employees' attitude and personality disposition can keep them away from work. Besides, the different levels of environmental factors manipulated in this study, except hazardous materials do not show evidence to influence mine workers absenteeism from work. Again, this brings to mind that being absent from work is largely explained by factors not related to environmental factors concerning the mining industry. Of course, the conclusion on hazardous materials influence on mine workers absence from work can be validated by the composition of work in this industry. The different elements, materials and minerals are no doubt composite of hazardous materials capable of harming the human physiology. Thus, the need for investment in the management of the frequency of hazards from mining elements and materials will dwindle mine workers absence from work.

Taking together, the study concluded with the position that all environmental factors should be measured in terms of their influence on mine workers turnaround time at work, but the

bane of hazardous materials should be given prime attention. The study therefore indorse the revitalization of the South African mining industry with respect to setting out workable modalities for the control of hazardous materials in the workplace. Besides, the management of the South African mining industry should support a more hazard free workplace with a focus on improving not just workers presence at work, but for a healthier workplace. The mining industry should sets a canon for the effective monitoring function of occupational accident arising from hazardous materials that are likely to make workers stay away from work. This recommendation is no doubt fundamental given the structure of work that characterise the mining industry. Lastly, with evidence that the South Africa economy is largely dependent on the activities and proceeds from the mining industry, this study recommend a tauter disciplinary measures by the Department of Mineral Resources for organisations who fail in complying with safety practices for the prevention of hazards in the mining industry. Future research should be conducted with consideration to other variables that could likely predict absenteeism. Variables such as employees' social, psychological and personality disposition can be looked at with a view to understanding them as predictors of absenteeism in the mining industry.

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