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Business Combinations, Goodwill and Deferred Taxes: Evidences Emerging From a Comparative Analysis Between Italy and Bulgaria

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The starting point for the research was the evidence of a possible contradiction in the provisions of IAS 12 on goodwill and deferred income taxes, i.e., about the need to calculate deferred income taxation on temporary differences relating to all assets except for goodwill. This paper aims at exploring the degree of consistency between the theoretical provisions of International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) and their actual application by the management of Italian and Bulgarian listed companies, as regards the accounting treatments of deferred income taxes relating to the item "goodwill". The findings suggest that there are some differences between the accounting methods used by the management of most Italian listed companies and the provisions of IAS/IFRS. It can be argued that the rules given by IAS/IFRS are sometimes contradictory, since they may cause doubts in interpretation. As a consequence, in the end of the paper, an amendment to the provisions, set forth in IAS/IFRS concerning the accounting treatment of deferred income taxes relating to the item "goodwill", is proposed.

Keywords: goodwill, deferred taxes, business combination

Introduction

The content of this paper results from a tradition of research by a study group at the University of Bologna the authors belong to. The studies have focused on the nature of the item "goodwill" and its accounting and tax treatment both in separate and consolidated financial statements.[1] As is known to all, the European legislation

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[1] One first result of this research is represented by the report by Vanina Stoilova Dangarska during the international conference of 10th Interdisciplinary Workshop on Intangibles, Intellectual Capital and Extra-financial Information, organized by EIASM in Ferrara, Italy, on September 18th to 19th, 2014 and by the report by Lauretta Semprini during the international conference *La dimensioneetico-valorialenelgovernodelleaziende* (The Ethical and Values Dimension in the Governance of Companies) organized by SIDREA in Palermo, Italy, on September 25th to 26th, 2014.

requires the adoption of International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) only for consolidated financial statements of some companies of EU-member states, while for other companies, the adoption of international standards is optional. Therefore, in most EU-member states, there are two sets of accounting standards: the national ones and the international ones. In some previous studies, the Italian accounting standards applied to financial statements as of 31-12-2013 have been compared with IAS/IFRS, thus showing a substantial difference from the accounting treatment of deferred income taxes in business combinations which give rise to goodwill.[2]

Deferred income taxes of Italian financial statements have been subject to an evolving process in recent years, which can be summarized as follows:

(1) In the legislation in force until 31st December, 2003, they were not explicitly considered, while this issue was broadly discussed among scholars and in practice, in application of the accrual basis of accounting. The majority of companies, however, did not consider the important topic of deferred taxes;

(2) *The Legislative Decree No. 6* of 17th January, 2003 introduced the *Company Law Reform* for Italian companies, in compliance with the law of 3rd October, 2001. It amended some articles of the *Civil Code* and required the recognition of all deferred income taxes in the balance sheets of Italian companies. More specifically, deferred tax liabilities shall be recognized among the provisions for risks and charges, while deferred tax assets shall be recognized in the item No. 4-ter (deferred tax assets), right after the item No. 4-bis entitled “tax receivables” of the statutory scheme of the balance sheet in *art. 2424 of the Civil Code*. Similarly, the statutory scheme of income statement in *art. 2425 of the Civil Code* includes the item No. 22 relating to current, deferred, and prepaid income taxes;

(3) Finally, the adoption by the European Union of the *Regulation (EC) No. 1606/2002 of the European Parliament and the Council* required the adoption of IAS for some consolidated financial statements. Among these standards, IAS No. 12 deals with the issue of deferred income taxes.

It is now clear that the accounting treatment of tax charges is the same as for all other costs recognized during the year (Capodaglio, 2012); more specifically, it is necessary to identify the tax charges on an accrual basis and to distinguish them from those belonging to future years.

If there were no differences between the net income and the taxable income, the accounting treatment of tax charges would not differ from that of any other costs. Yet, since these differences do exist and they are significant, the taxes resulting from the tax return do not ordinarily correspond to those that should be paid if the taxable income was the same as the net income.

However, in accordance with the accrual basis of accounting, all this would not lead to any practical accounting consequences, if all these differences were “permanent”, namely differences which do not reverse in future years. Nevertheless, this is not the case. Most of them arise indeed from the tax legislation in force, according to which some specific revenues and/or costs are neither taxable nor deductible in the same year, when they shall be recognized in the income statement in compliance with accounting standards. Therefore, there are many differences that make the tax return income for a period greater or lower than the respective financial statement income and this shall have an opposite effect in the following financial period.

A completely different phenomenon occurs in extraordinary transactions: Demergers, mergers, and acquisitions, as well as transfers of businesses may involve the recognition of assets and liabilities in financial

[2] The accounting treatment of goodwill provided by the revised version of the Italian accounting standard No. 25, which was approved in August 2014, is similar to the provisions of IAS 12.

statements whose carrying values may significantly differ from their taxable or deductible values. Nonetheless, the economic and accounting nature of these differences are completely different from that arising from ordinary operations. First, in most cases, they do not reverse in future years, namely they are permanent differences. Second, they do not relate to revenues or costs, but they relate to assets and liabilities recognized in the balance sheet.

The Italian accounting standard No. 25, in the prior version to that of August 2014, deals simultaneously with the two abovementioned issues, without distinguishing them clearly. Yet, deferred income taxes arising from transactions which affect directly the shareholders' equity and do not have any effects on the income statement shall be recognized as deferred tax provisions by reducing the shareholders' equity arisen from the transaction itself. By way of example, these differences arise from:

- revaluation of assets recognized in the balance sheet according to specific laws;
- tax-suspended reserves and funds;
- tax-suspended transfer of businesses.

As a consequence, this standard identifies the tax-suspended transfers of businesses or branches, as typical examples of transactions generating differences which require the recognition of deferred tax provisions. It refers equally to all assets acquired and liabilities assumed within the transaction. Hence, if the tax-suspended transfer includes the item "goodwill", deferred income taxes should be measured on this item, too.

In the Italian accounting standard No. 4, which deals with companies' mergers and demerges, there is a note containing a comparison between the provisions of the Italian accounting standard No. 25 and those of the international standard No. 12, which prohibits the recognition of deferred income taxes on "goodwill" emerging from business combinations.

This research aims at assessing all the possible consequences arising from the differences referred to above in the accounting treatment of goodwill and at investigating the origins of the differences themselves.

The importance of this research stems from the fact that the aforementioned differences between some national and international accounting standards involve alternative and incompatible choices when drafting the financial statements. This may cause difficulties in interpretation for stakeholders. Another objective of the research is therefore to find out a solution which can overcome these difficulties in interpretation.

In the following, the main references to the consulted literature on goodwill and deferred income taxes will be reported. In the third section, the research questions, the assumptions made, and the methodology used will be described. Then, the empirical investigation will be outlined, in order to verify the validity of the assumptions made. Finally, the last two paragraphs will show the findings, draw the conclusions, and formulate new assumptions for further developments.

Literature Review

The effort to provide an economic definition of goodwill has resulted in different contributions: As Onida (1971) stated, the different notions of goodwill in the economic literature can indeed be examined both under their qualitative and their quantitative aspects (see also Bianchi Martini, 1996).

With regard to the first aspect, some academic scholars move away from the concept of goodwill as a "good", for example, Owens (1923) supported the theory of goodwill as a "good", emphasizing its nature as a "quality" or an "attribute", as well as the ability of the company to generate higher future economic earnings (Dicksee & Tillyard, 1906; Leake, 1921; Canning, 1929; De Dominicis, 1937; Paton & Littleton, 1940;

D'Ippolito, 1946; Amaduzzi, 1948; Zappa, 1950; Onida, 1971; Lee, 1971; Tearney, 1973; Samuelson, 1976; Capodaglio, 2010; 2011).

Some other authors placed the emphasis on the concept of goodwill calculated as the difference between the global economic value of an entity and the fair market value of the entity's assets, less its liabilities (Besta, 1920; Guatri, 1957; Falk & Gordon, 1977; Baxter, 1993; Santesso, 1994; Bryer, 1995; Johnson & Petrone, 1998). Capodaglio (2010) asserted that goodwill cannot be identified as a separate element of companies, but as a quality, a feature, or even a condition, and as such absolutely inseparable from the context of reference.

Guatri's definition (1989) of goodwill as a "ghost differential" is a perfect synthesis of this second concept.

However, it is worth pointing out that goodwill is mainly considered as a residual in relation to the other intangible assets, including elements which can hardly be quantified individually. In this contest, the value of goodwill is a synthetic expression of those company's intrinsic abilities, which do not form an identifiable and separable resource or asset, despite being an integral part of its organization.

From a quantitative point of view, numerous efforts have been made to provide an adequate methodology to measure goodwill, in order to obtain an increasingly accurate measure (Romano, 2004).

The notion of goodwill in accordance with international standards is essentially consistent with the concept of goodwill as a residual. In fact, the definition set forth in *Appendix A of IFRS 3* (revised) is: "an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised" (European Commission, 2008, p. 613). This document contains then a distinction between internally generated goodwill and goodwill arising from business combinations. Internally generated goodwill results from an efficient company management and a strategic organization of the whole set of assets, including human resources, which is favorable to the company. In accordance with paragraph 49 of IAS 38,

> Internally generated goodwill is not recognized as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost. (European Commission, 2008, p. 403)

Under paragraph 32 of IFRS 3 (revised), the acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

(i) the consideration transferred measured in accordance with this IFRS, which generally requires acquisition-date fair value […];

(ii) the amount of any non-controlling interests in the acquiree measured in accordance with this IFRS;

(iii) in a business combination achieved in stages, […] the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS (European Commission, 2008).

As opposed to the provisions for internally generated goodwill, goodwill arising from a business combination must be recognized as an intangible asset in the balance sheet from the moment when the economic entity incurs a cost in order to secure for itself the future economic benefits arising from the acquired set of assets. Capodaglio (2010) pointed out the different accounting treatments of purchased goodwill: On one hand, the Italian *Civil Code* and Italian accounting standards "allow" its recognition, subject to prudential conditions, such as the binding opinion by the Board of Statutory Auditors; on the other hand, international standards "require" its recognition as an asset, subject to subsequent tests.

The initial recognition of goodwill is carried at cost. In fact, under paragraph 65B of IFRS 3,

> If a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. (European Commission, 2008, p. 611)

Goodwill is, therefore, considered to be a residual which includes all assets and liabilities that do not meet the conditions for a separate recognition, regardless of their previous recognition of the acquired entity.

As far as subsequent measurements are concerned, it must be firstly stressed that goodwill is allegedly considered to be an intangible asset with an indefinite useful life. This is the reason why goodwill is not subject to amortization, but its value is tested annually for impairment. Therefore, any impairment losses are detected through this procedure, which must be carried out in accordance with IAS 36.[3]

Finally, it is necessary to mention the accounting treatment of deferred income taxes relating to goodwill, as described in IAS 12. Under paragraph 19,

> With limited exceptions, the identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill […]. (European Commission, 2008, p. 93)[4]

By reading this passage, the arising of "deferred" income taxes would seem to be necessary for all assets acquired and liabilities assumed, whose carrying value differs from the tax base, including goodwill. However, paragraph 21 specifies:

> Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill. (European Commission, 2008, p. 93)

Therefore, international standards provide an exception to the general accounting treatment of deferred income taxes relating to goodwill; this is indeed the core of the present survey.

The examined literature (Amir, Kirschenheiter, & Willard, 1997; C. C. Bauman, M. P. Baumann, & Halsey, 2001; Chaney & Jeter, 1994; Chludek, 2011; Gordon & Joos, 2004; Lev & Nissim, 2004; Nobes & Norton, 1996; Fritz & Lammle, 2003; Graul & Lemke, 1976; Hanlon, 2005) does not provide a joint discussion of issues on goodwill and deferred income taxes relating to that. The survey aims at investigating these topics, which have been scarcely discussed in the literature so far.

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[3] Under paragraph 107 of IAS 38, an intangible asset with an indefinite useful life shall not be amortised. Paragraph 108 provides as "in accordance with IAS 36, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount: (a) annually; (b) whenever there is an indication that the intangible asset may be impaired" (European Commission, 2008, p. 413).

[4] The previous paragraph 15 provides as follows: "A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: the initial recognition of goodwill" (European Commission, 2008, p. 91).

Research Methods

Starting from the premise that all EU listed companies currently have to apply IAS/IFRS for their consolidated financial statements, it was decided to verify whether in other EU member states there were differences between domestic and international accounting standards which are similar to those in Italy as far as deferred income taxes on goodwill are concerned.

Among the basic research assumptions, the possible origin of these differences in the so-called environmental factors was identified, i.e. the historical, cultural, and social characteristics of the different EU countries (Alexander & Archer, 2000; Berry, 1987; Černe, 2009; Choi & Mueller, 1992; Do CéuAlves & Antunes, 2011; Gernon, 1995; Gray, 1988; Nobes, 1981; 1983; 1998; Hatfield, 1966; Hofstede, 1984; Hopwood, 1987; Mueller, 1967; Nair & Frank, 1980; Nobes & Parker, 2004; Seidler, 1967a; 1967b; Saudagaran, 2004). On the basis of that assumption, the possible differences, between domestic accounting standards and IAS/IFRS of a country whose environmental factors were quite different from the Italian ones, were examined. That comparison could have led to three different results:

(1) There are no differences between IAS/IFRS and domestic accounting standards: It was decided to investigate whether the environmental factors of this country are actually different from those of IAS/IFRS countries;

(2) There are similar differences to those identified in Italy: This might mean that the assumptions made are not valid;

(3) There are indeed differences between domestic and international accounting standards, though they are completely different from those identified in Italy; in this case, it was decided to investigate the different historical, cultural, social, and environmental origins among the examined countries.

The choice fell on Bulgaria, also because of the possibility of obtaining the necessary data to carry out the research. Such possibilities are granted by a scientific and educational agreement between Alma Mater Studiorum (University of Bologna) and the University of National and World Economy of Sofia.

As it will be shown later, there are actually differences between the domestic accounting standards of the two countries, though listed companies have to apply exclusively IAS/IFRS both in Italy and Bulgaria. Therefore, it was necessary to wonder whether the accounting treatment of Italian and Bulgarian listed companies was homogeneous or not. If this is the case, it will be interesting to investigate the origins of such differences.

As a second research question, a possible solution, in order to eliminate the significant contradiction in the provisions of IAS 12 on goodwill and deferred income taxes, will be investigated.[5]

Hence, what the consequences of the highlighted differences might be for stakeholders of the financial statement was analyzed. More specifically, depending on the choices made, a significant liability can be recognized in the balance sheet.

In order to verify if there are indeed interpretation uncertainties due to the coexistence of two different sets of accounting standards, an empirical analysis on the accounting treatment of the item goodwill in financial statements of listed companies was carried out, which will be described in the following paragraphs/sections. The research was limited to the period from 2008 to 2011, since it represents the first three years when

[5] In compliance with IAS 12, deferred income taxes shall be recognized for temporary differences on all assets, except for the item "goodwill".

international accounting standards have been fully applied in Italy in separate financial statements for listed companies, too.

This research belongs to the studies on international accounting and has a prescriptive and regulatory goal (Zambon, 1996); it is aimed at demonstrating that the accounting treatment of deferred income taxes relating to goodwill required by IFRS does not adequately represent this phenomenon.

As it has been observed, the survey methodology in the field of international accounting consists of three levels: the object analysis mode, the time dimension, and the method for deriving data.

Under this approach, the methodology used in this paper is more specific, since it is aimed at deepening this issue in relation to a single entity, which has been chosen within a reference level, i.e., the listed companies of two countries of the European Union (Italy and Bulgaria). It is also static, as it involves the investigation of a given topic with reference to certain items over a determined period (2008-2010); its starting point is inductive, since it was collected empirical evidence from reality and subsequently it was drawn general conclusions based on a top-down approach in the end.

As already mentioned, this paper belongs to the studies on international accounting and it is based on international accounting issues, concerning multinational economic bodies by their very nature (Zambon, 1996; Di Pietra, 2000).

Development of the Research, Company Sample and Results

Analysis of the Legislation and Practice

In compliance with the Italian legislation (art. 2426, n. 6 of the *Civil Code*), goodwill acquired for consideration[6] can be recognized in the balance sheet within the limit of the cost incurred, with the consent of the Board of Statutory Auditors, when present, and shall be amortized. As mentioned in the premises, the Italian legislation does not explicitly deal with deferred income taxes relating to goodwill. For this reason, its accounting treatment should not differ from all other technical fixed assets, when the carrying value is different from the value recognized for tax purposes. As already mentioned, Italian accounting standards, and in particular, the accounting standard No. 25 in the revised version, now comply with the provisions of IAS 12 and therefore deferred income taxes relating to goodwill shall not be recognized.

The Italian *Civil Code* deals with deferred taxation in financial statement's structure. More specifically, under art. 2424, deferred tax assets shall be recognized among the current assets in the item C.II.4-ter "deferred tax assets", while deferred tax liabilities shall be recognized in the item B.2 as deferred tax provisions. The income statement includes the item No. 22 relating to current, deferred, and prepaid income taxes.

In compliance with the tax legislation, the costs relating to goodwill are differently deductible depending on the kind of transaction from which it emerges. When businesses are purchased, goodwill shall be amortized for tax purposes for a period of currently 18 years or more and the depreciation charge of goodwill is always deductible from the tax base. This generally results in temporary differences due to the different depreciation charges, and hence deferred income taxes shall be recognized.

In case of business transfers, mergers, and demergers, in compliance with the general rule of tax legislation, the difference in the values of assets for tax purposes, which correspond to the carrying values

[6] It is intended for consideration when arising from transfers, mergers, and demergers.

before the transaction and their carrying values after the transaction, is not deductible from the tax base.[7] In this second case, these differences are permanent, though in compliance with international and national accounting standards, deferred income taxation shall be recognized for all items, except for goodwill.

As for Bulgaria, the *Law on Accountancy* does not deal with the accounting treatment of assets, liabilities, costs, and revenues, which shall be governed by the applicable accounting standards. All entities apply international accounting standards, except smaller entities, which meet the quantitative criteria set by law, can apply Bulgarian accounting standards. These standards are sources of law, because they are adopted by Ministerial Decree and are published on the *State Gazette*.

Also the commercial law does not contain any provisions on goodwill and deferred income taxes arising from transfers, mergers, and demergers.

The Bulgarian tax legislation is similar to the Italian one in many respects, however, it treats the item "goodwill" in a totally different way: the *Corporate Income Tax Act*, published in the *State Gazette* (Darjaven Vestnik) No. 105 as of December 22, 2006, which entered in force on January 1, 2007, within the section "Non-recognition of Income and Expenses From Subsequent Valuations (Revaluations and Impairments)", provides (see art. 34): The proceeds and expenditures from subsequent assessment of assets and liabilities shall not be recognized for tax purposes in the year of their accounting (Parliament of the Republic of Bulgaria, 2006). Article 35 provides moreover that any income and expenses from subsequent valuations unrecognized for tax purposes according to the procedure established by article 34 herein shall be recognized for tax purposes in the year of write-off of the relevant asset or liability (Parliament of the Republic of Bulgaria, 2006).

Goodwill shall not be recognized for tax purposes in accordance with the Bulgarian tax legislation. In fact, article 48 defines as tax depreciable assets:

(1) the tax tangible fixed assets;

(2) the tax intangible fixed assets;

(3) the investment properties, with the exception of land;

(4) the subsequent expenses referred to in article 64 herein.

Article 49 expressly states that goodwill generated as a result of a business combination shall not be a tax depreciable asset and that any loss from impairment and upon write-off of goodwill shall not be recognized for tax purposes (Parliament of the Republic of Bulgaria, 2006).

These provisions are particularly important for the purposes of this study, considering the legislation in force in Bulgaria regarding the accounting treatment of goodwill. The national accounting standard No. 22 regarding the accounting treatment of business combinations requires indeed the systematic amortization of goodwill over its useful life and the recognition of the amortization charge for each period as an expense by the acquiring entity, contrary to the provisions of international accounting standards.

The result is that goodwill arising from business combinations in Bulgaria affects the income statement through its amortization charges for companies adopting NAS and through any write-downs for IFRS-adopters. However, goodwill is not recognized for tax purposes in both cases.

For the recognition of tax effects of business combination, the national accounting standard No. 22 refers to the national accounting standard No. 12.

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[7] All this, even if special laws provide the possibility of recognizing any higher values of the assets acquired for tax purposes as a result of these transactions by paying a substitute tax.

In compliance with the national accounting standard No. 12, deferred tax liabilities shall be recognized whenever there are taxable temporary differences. Such differences arise, when the carrying value of an asset or a liability differs from its taxable or deductible value. More specifically taxable temporary differences are defined as temporary differences that will result in taxable amounts in determining taxable profit (or tax loss) of future periods when the carrying amount of the assets or liability is recovered or settled.

Goodwill arising from business combinations is not recognized for tax purposes and the national accounting standard does not provide any exceptions to the recognition of deferred tax liabilities arising from taxable temporary differences. Therefore, it can be argued that Bulgarian accounting standards do not exclude the recognition of deferred income taxes relating to goodwill.

As it will be shown later, the differences between the legislations of these two countries are mainly due to the environmental factors.

From an economic point of view, Bulgaria has only recently moved from a collectivist system to a free market system, while Italy has always been characterized by a market economy model, in spite of going through a 20-year period of corporate system.

Nevertheless both economic structures are made up of small and medium entities and the so-called "micro-entities" represent a great percentage.

The aforementioned differences have led to verify if and to what extent they affect the behavior of the drawers of financial statements, when recognizing the item "goodwill" and presenting it in the financial statement, also in relation to deferred income taxes.

The Empirical Analysis

Given these assumptions, a quantitative analysis on financial statements of Italian and Bulgarian listed companies was carried out.

This survey covered the financial statements of all listed companies, other than those belonging to financial and insurance sectors; the exclusion is justified by the different natures of these companies, whose inclusion would have led to greater difficulties in interpretation.

The number of companies listed on regulated markets is extremely low; hence it was possible to examine the entire "universe" of data, without the need to select a representative sample.

During the first step of the research, data were collected.

As far as Italy is concerned, it firstly identified all companies listed on the Italian stock exchange over the 2008-2010 period.[8]

As mentioned before, it was decided to acquire the financial statements of all listed companies; the notes were then examined to financial statements, in order to obtain some necessary information for the following steps of our survey.

More specifically, the project was developed in the following way. Of the approximately 350 companies listed on the Italian stock exchange over the years 2008, 2009, and 2010, only those companies whose 2010 financial statements was available (251) were taken into consideration.

The research was then developed with reference to financial statements of companies, whose "goodwill" showed a variation in any of the selected years (i.e., 59 companies). This analysis was restricted to separate

[8] Authors chose these financial years mainly taking into account the availability of financial statements at the beginning of our research; however, these periods significantly represent how IAS/IFRS are ordinarily applied in separate financial statements by the management of listed companies, as their application has been required by the Italian law since 2006.

financial statements, thus excluding the consolidated ones, since they did not influence taxation.[9]

Once, the financial statements containing the aforementioned variation in "goodwill" was identified, the content of the notes was examined, in order to detect whether this variation was caused by business combinations, such as mergers and acquisitions; in these cases, whether and to what extent deferred income tax assets and liabilities referring to the business combination were recognized were examined.

In the course of this paper, the cases will be described, where the recognition of goodwill did not conform to the IFRS, with respect to its accounting treatment, to its subsequent evaluations, and to the recognition of deferred tax assets and liabilities.

As long as Bulgaria is concerned, it was made in a similar way. More specifically, they have selected all Bulgarian listed companies, starting from the tables and reports published on the Bulgarian stock exchange website. In order to obtain quantitative data, it was relied on the website Infostock.bg. As a first approximation, they have taken into account all data relating to listed companies, except for those belonging to financial and insurance sectors. Afterwards, they analyzed only the financial statements of companies that showed a change in the item "goodwill". For all of them, they investigated more deeply the contents of the balance sheets, the income statements, and the notes, as it was previously done for Italy.

Of the approx. 300 companies, only six of them showed a change in the item "goodwill" in their separate financial statements.

The analysis focused on 59 Italian companies, where a variation in the item "goodwill" was noticed and whose financial statements included deferred tax assets or liabilities relating to it. The different categories of the identified accounting treatments of goodwill below were listed.

Category (A). In most cases, the item "goodwill" increases as a result of taxable transactions and consequently deferred tax is recognized. In these cases, temporary differences arise from the different accounting treatment of goodwill required by IFRS and the Italian tax law. Under international standards, goodwill is no longer amortized, but subject to possible impairment losses, whose deduction from the tax base is not allowed by the Italian tax law. On the opposite side, it is possible to deduct from the tax base and the amortization of goodwill, measured with predefined percentages, independently of the financial statements. These companies have thus deducted the amortization of goodwill only in their tax returns and they consequently have to recognize deferred tax liabilities. In some cases, deferred tax assets are measured on goodwill impairments which shall not be deducted from the tax base. All these cases are considerably in line with the provisions contained in the IFRS.

Category (B). The financial statements of three companies contain an explicit and unreserved statement, as required by IFRS 1, of full compliance with IFRSs. Nevertheless, goodwill has been amortized. Indeed, the income statement shows the item "amortization of goodwill" for the years 2009 and 2010. This does not seem to be in line with the provisions of IFRS.

Category (C). In two cases, goodwill arises from mergers. In these cases, deferred income taxes are not recognized for the acquisitions, but then deferred tax assets are recognized relating to the item "amortization of goodwill". The available data show that one of these companies has "released the goodwill" by paying a

[9] The consolidated financial statements were necessary to develop another step of this research. In order to understand the reasons why authors only analyzed separate financial statements for these purposes, you can refer to the work of Nobes and Norton (1996). They asserted the existence of three types of goodwill: internally generated goodwill, non-consolidated goodwill, and goodwill on consolidation. Then they pointed out that only separate financial statements can be examined for tax purposes and for this reason only non-consolidated goodwill can be analyzed for taxation.

substitute tax. This procedure will be analyzed in the following paragraph. The recognition of deferred tax assets could be linked to this fact. However, as for the other company, any explanation on this issue was not found.

Category (D). In one case, deferred tax assets relating to impairment losses are recognized, since they shall not be deducted from the tax base. Deferred tax liabilities relating to amortizations of goodwill are not recognized, since they could be deducted from the tax base in the tax return. From the available data, it is not clear whether the recognized goodwill is relevant for tax purposes or not. In this second case, deferred tax assets relating to the impossibility of deducting goodwill impairment losses from the tax base should not have been recognized.

Category (E). The 2010 financial statement of a company shows "uses of deferred tax provision" relating to goodwill, due to a merger occurred in 2008, since "their depreciation charges were not deductible". In 2010, the management realigns the values of goodwill by paying a substitute tax and therefore all depreciation charges become deductible, without the need to recognize deferred tax liabilities. The origins of deferred income taxes relating to goodwill, which are "used" in 2010, are not clear. Since goodwill was not relevant for tax purposes in the first years, it is not possible to recognize deferred income taxes over the years from 2008 to 2009 relating to depreciation charges deductible from the taxable income, as occurs in category A. This deferred tax provision could be related to goodwill, and this is in contrast with the provisions of IAS 12. Moreover, the accounting treatment of the substitute tax is not clear.

Category (F). In one case, which is similar to the previous one, the realignment of goodwill occurred in 2010, but goodwill arose in 2002, when IFRS were still not applicable in Italy. The substitute tax is recognized as an asset as an "advance on accrued taxes". Another company too recognizes deferred tax assets relating to the substitute tax.

Category (G). In one case, goodwill is declared to be deductible from the tax base and deferred tax assets are recognized. It is not clear whether goodwill is subject to amortization, and therefore deferred tax assets can arise from the difference between the statutory amortization and the tax amortization. In this second case, the considerations of category B apply.

Category (H). In one case, goodwill results from the acquisition of a business branch and therefore relevant for tax purposes. The deferred tax provision includes the "reversal of goodwill amortization" but there are no explanations. Probably it refers to deferred income taxes relating to the adjustments made on tax return, as already mentioned for category A.

Category (I). The financial statement of one company shows goodwill relating to business acquisitions and therefore relevant for tax purposes. Part of the deferred tax assets relate to non-deductible depreciations. There are not any deferred tax liabilities relating to non-accounting deductions of amortizations.

Category (J). A company declares to adopt the Italian national accounting standards amortizes goodwill and calculates deferred tax on it; it is not clear if deferred tax liabilities ware recognized at the initial recognition of goodwill, non-deductible for tax purposes. This procedure also has some doubts as to interpretation, since, as listed company, should have adopted the international accounting standards.

As for Bulgarian companies, the situation is completely different: Only six financial statements out of 250 companies show variations in the item "goodwill". For all of them, the notes to the financial statement have been analyzed, in order to detect whether the provisions of international standards have been applied correctly, as occurred with the Italian companies. More specifically, the analysis was focused on any possible amortization of goodwill, on the existence of any possible deferred tax provisions relating to goodwill which is not deductible from the tax base, and on deferred tax assets or liabilities relating to taxation of depreciation charges and to goodwill value adjustments.

The findings suggest that there are not any deviations from the provisions of international standards. In some notes to the financial statements of the analyzed companies, there is a passage about the arising of goodwill from business combinations, whose carrying amount is not recognized for tax purposes. Here is a literal translation of the abovementioned passage,

> This company has originated from the merger with (names of the companies involved). Following this merger, the carrying values of the identifiable assets acquired and the liabilities assumed have increased to their fair values. As a result, taxable temporary differences arise, which lead to deferred tax liabilities. This reflects on the (amount of) goodwill, since the value recognized for tax purposes remains the acquisition value by the previous owner. (Zarneni Hrani Bulgaria AD—Sofia, 2009)[10]

Therefore, such reasoning is based on the concept that deferred income taxes are recognized for all items of the financial statement affected, except for goodwill, which is considered as a residual.

Findings

The Influence of Environmental Factors

As previously mentioned, IFRSs do not allow the amortization of goodwill, but they require it to be subject to a periodic verification of its value. In addition, IAS 12 sets forth a particular accounting treatment for the differences arising from the carrying value of "goodwill" and the corresponding amount recognized for tax purposes. In this case, it is not possible to create a deferred tax provision. Under paragraph 21 of IAS 12, it said that:

> Many taxation authorities do not allow reductions in the carrying amount of goodwill as a deductible expense in determining taxable profit. Moreover, in such jurisdictions, the cost of goodwill is often not deductible when a subsidiary disposes of its underlying business. In such jurisdictions, goodwill has a tax base of nil. Any difference between the carrying amount of goodwill and its tax base of nil is a taxable temporary difference. However, this standard does not permit the recognition of the resulting deferred tax liability because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill. (European Commission, 2008, p. 94)

Finally, under IAS 12 (see paragraph 21A), it said that:

> Subsequent reductions in a deferred tax liability that is unrecognised because it arises from the initial recognition of goodwill are also regarded as arising from the initial recognition of goodwill and are therefore not recognised under paragraph 15(a), for example, if in a business combination an entity recognises goodwill of CU100 that has a tax base of nil, paragraph 15(a) prohibits the entity from recognising the resulting deferred tax liability. If the entity subsequently recognises an impairment loss of CU20 for that goodwill, the amount of the taxable temporary difference relating to the goodwill is reduced from CU100 to CU80, with a resulting decrease in the value of the unrecognised deferred tax liability. That decrease in the value of the unrecognised deferred tax liability is also regarded as relating to the initial recognition of the goodwill and is therefore prohibited from being recognised under paragraph 15(a). (European Commission, 2008, p. 94)

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[10] This is the Bulgarian original text: В резултат на създаването на Зърнени храни България АД, чрез сливане, съгласно договор от 21 септември 2007 г., между Слънчеви лъчи България АД, Зърнени храни Трейд АД, Бек Интернешънъл АД, Зърнени храни—Вълчидол АД, Зърнени храни Балчик ЕАД, Зора АД, Прима Агрохим ЕООД и Химимпорт Агрохимикали ЕООД балансовата стойност на придобитите разграничими активи и поети пасиви е увеличена до тяхната справедлива стойност. Вследствие на това възникват облагаеми временни разлики, които водят до отсрочен данъчен пасив, отразяващ се на репутацията, тъй като данъчната им основа остава по цената на придобиване на предходния собственик.

The analysis has pointed out that the financial statements of some Italian listed companies are not completely drawn up in accordance with the provisions of international standards, rather, they show accounting treatments which may not be in line with such standards, if it is based on the information inferable from the financial statements.[11]

This is very important, as all listed companies should have applied the provisions of IAS/IFRS to their financial statement from 2006. It is now worth citing paragraph 16 of IAS 1:

> An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs. (European Commission, 2008, p. 12)

At the end of this analysis, as for the accounting treatment of goodwill and its recognition in the financial statements of Italian listed companies, it is possible to draw the following conclusions: Users of such financial statements may have the impression that an unambiguous and unique treatment does not exist, but instead many companies provide a kind of "personal interpretation" of some provisions of the international standards.

An examination on the financial statements of Bulgarian listed companies, however, did not show any deviation to the accounting treatment required by international standards.

The analysis on the financial statements of Italian listed companies has showed that the management of some of them has disregarded the provisions of IAS/IFRS, whose adoption was introduced by the Italian decree No. 38 of 2005; in order to understand why it happened, it is important firstly to point out that the basics of Italian company law differ greatly from the law of those countries, in which these standards have originated.

Bulgarian, Italian, and international accounting standards are very different because of many factors. One of the most important reasons is surely the difference in the legal systems of the different countries but, before that, it is necessary to point out the cultural differences among Italy, Bulgaria, and the United Kingdom, where international accounting standards which are now applied within the European Union originated (for more details on the different environmental factors which form the basis of the discrepancies of the accounting systems, see also Ball, Kothari, & Robin, 2009; Baydoun & Willett, 1995; Bushman & Piotroski, 2006; Doupnik & Richter, 2004; Doupnik & Salter, 1993; 1995; Gray, 1988; Hofstede, 1980; Jaggi & Low, 2000; Lamb, 1996; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; McGee, 2008; Nobes, 1998, 2006; Perera, 1989; Puxty, Willmott, Cooper, & Lowe, 1987; Saudagaran, 2004; Viganò, 1991; Zysman, 1983). It can be seen that the culture of Mediterranean European and Central European countries has been strongly affected by the Greek and Roman traditions. More specifically the latter can be considered as the foundation for all legal systems based on written laws. The logic which drives the culture of these countries is generally deductive, i.e., it starts from general principles and proceeds coherently towards specific elements. It becomes apparent when analyzing legal systems with a hierarchy of norms. At the top, there are the general ones, which shall be always applied, and then proceeding towards gradually lower levels, there are the specific ones, which shall be applied to specific cases.

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[11] Four out of the 21 companies showing an increase in the item "goodwill" seem to have a blatant discrepancy with the provisions of IFRS; moreover, in other four cases, there is the probability of such a discrepancy. Therefore, this phenomenon may involve forty per cent of the examined companies.

The situation in the Anglo-American culture is totally different, since it is based on inductive logics and on best practices, which have a regulatory value, although they may vary in time. Case-law is inspired to them: All judgments and sentences represent "binding precedents", which all subsequent judgments shall conform to.

All the accounting systems of the different countries are obviously influenced by cultural differences and by the discrepancies in the legal systems.

More specifically, in countries based on common law, since there are not any written laws, accounting standards issued by bodies established under private law have the status of best practice and so they have a regulatory value.

Conversely, in countries based on civil law, which are based on written laws, accounting standards shall only interpret and integrate the law.

Bulgaria, unlike the United Kingdom, has more varied characteristics. Because of its history, it has a detailed and varied regulatory system, which persists even after the end of its collectivist regime and the entry to the European Union. There is a special *Law on Accountancy* and domestic accounting standards, which are enacted by the Council of Ministers, have a regulatory value, and are published on the *State Gazette*. In connection with this system, however, there has been a widespread adoption of international accounting standards also by smaller entities, which can apply domestic standards only as an exception to the general rule.

Italy is a country based on civil law, whose written laws and regulations are binding. In Italy, there is not any specific *Law on Accountancy*, even though the *Civil Code* deals with accounting issues and the domestic accounting standards enacted by the Italian Accounting Standard Setter (Organismo Italiano di Contabilità known as OIC) interpret the law.

In conclusion, it can be argued that the choices of the management of Italian and Bulgarian companies are not homogeneous, as far as the object of this survey is concerned, and this is caused by the discrepancies in the laws on accountancy and financial statements. Moreover, international accounting standards are widespread applied in Bulgaria, while in Italy there are two sets of accounting standards, which are applied by different categories of entities. Finally, the origins of such differences are to be found in the environmental factors.

An Alternative Solution

In order to address the second research question about the possibility of a significant contradiction in the provisions of IAS 12 and its possible overcoming, it will now examine a typical Italian case regarding the accounting treatment of goodwill in business combinations, where the carrying value of goodwill differs from the value recognized for tax purposes: It is indeed referring to the transfer of a business. Unlike what happens when purchasing a company, where all carrying values are taxable or deductible, the transfer of a business is fiscally neutral.

As it is known to all (Dezzani, Pisoni, & Puddu, 1995), during the setting up of a company and the transactions to increase the share capital, the contributions can be represented by money or other properties or rights. In this second case, if the transferee is a limited company, under article 2343 of the Italian *Civil Code*, the value of the assets or rights conferred must be assessed by an expert. The amount indicated by the expert is the upper limit of the par value of the shares issued, increased by any possible share premium.

The deed of transfer usually contains the indication of the value attributed to every single asset and liability of the business branch acquired, including the item "goodwill".

In order to fully understand the economic meaning of the item "goodwill" in this kind of operations, it is worth noticing that goodwill comes from the calculation of the value of assets and liabilities of a going concern. However, the business acquired is not considered as a result of an algebraic sum, rather it should be regarded as a unitary object of exchange. In other words, the following registration might be considered "theoretically" correct:

- Debit: the total amount of the business transferred;
- Credit: equity.

However, for technical, accounting, and legal reasons, this registration is not acceptable in practice; it does not allow the registration of every single identifiable asset acquired and liability assumed in the balance sheet of the purchaser company. As a consequence, in the transfer deed, there are all the values of assets and liabilities, including the possible goodwill.

The item "goodwill" comes from the difference between the value of the business transferred as a whole and the algebraic sum of every single asset and liability which make it up. Therefore, goodwill can be considered as an "asset acquired for consideration", whose cost refers to a multi-year period with an indefinite duration, in accordance with IFRS.

As previously mentioned, IAS 12 "does not permit the recognition of the resulting deferred tax liability, because goodwill is measured as a residual and the recognition of the deferred tax liability would increase the carrying amount of goodwill" (European Commission, 2008, p. 94).

It is therefore a contradiction with the general accounting principle applicable to all assets, which states that it is necessary to recognize a deferred tax provision, when taxable temporary differences arise. This contradiction is clearly stated within the IAS itself, though it does not provide any solution for the arithmetic reason highlighted above.

In a first approximation, it is possible to suggest a very simple solution, which has surprisingly not been taken into serious consideration yet.

If it is supposed that the accounting treatment of deferred income taxes relating to goodwill was similar to the accounting treatment of deferred income taxes of all assets with a potential increase in value. In this case, it would be enough to add to the value given to goodwill, the value of income taxes on identified differences using the following formula:

$$\text{deferred tax provision} = \frac{\text{goodwill}}{1 - \text{tax rate}} \times \text{tax rate}$$

It is assumed that the contribution value of the business is net of all liabilities, including those relating to deferred income taxes. Therefore, if the difference between the contribution value and the sum of the assets acquired net of the liabilities assumed had to be considered as "goodwill", this item should also be recognized as a net value, after all deferred income taxes are taken out. In order to measure the gross value and the corresponding provision, it is sufficient to divide the net value by ones' complement of the tax rate.

Conclusions

In a second approximation, it can be argued that the identified difficulties in the interpretation are caused by the mistake hereafter highlighted. The value attributed to the business by the expert or by the parties should be recognized as a net value. Whatever the method is chosen for the business valuation, the result of it must take into consideration all assets and liabilities relating to the business. If this valuation is based on company's future income or expected cash flows, as generally occurs, these elements must consider net of all corresponding taxes.

The provisions of IFRS, though not questioning the total value attributed to the business transferred, require the recognition of a deferred tax provision for the values of assets which are not recognized for tax purposes. At this point, the total amount of liabilities increases, while the value of assets remains the same. Therefore, there is a reduction in the net value of the asset which, compared to the consideration value, generates an increase in the original difference. Under IFRS, this further difference (extra-difference) must be recognized as an increase in goodwill, beyond the value of goodwill which appears in the balance sheet annexed to the transfer deed. Therefore, goodwill arisen from the business combination is caused by the accounts not to be balanced. This "imbalance of accounts" is considered as part of goodwill which does not generate deferred income taxes, in order to avoid any consequent imbalances. The mistake is based on the failure to include the total value attributed to the business combination all liabilities, including any possible deferred tax provisions.

However, this reasoning applies for all items of the balance sheet, not only for goodwill.

If the "contribution balance sheet" does not show any deferred tax provisions, one of the following hypotheses can be proposed:

- There are not any differences between the carrying values and the tax bases of all assets and all liabilities assumed;
- The recognized values are "net values", without deferred income taxes;
- The business valuation is incorrect.

At this point, if the first or the second abovementioned hypothesis occurs, or if the "contribution balance sheet" shows deferred tax assets or liabilities, the purchaser company should not make any adjustments. However, if the business has been incorrectly evaluated (third hypothesis), the management should correct the transfer value, as it occurs when there are material misstatements.

During the evaluation of the business to be transferred and the drawing-up of its financial statement, there are not any practical or logical difficulties in the recognition of the deferred tax provision relating to the item "goodwill". Once assessed the values of the identifiable assets and the liabilities assumed of the business to transfer, taking into consideration all corresponding deferred income taxes, it is necessary to recognize goodwill as the possible excess of the consideration transferred over the net of the amounts of the identifiable assets acquired and the liabilities assumed thus measured. This valuation of goodwill should be considered as a net value; thanks to a simple calculation, it is also possible to get the gross value of goodwill and the amount of the relating deferred tax provision.

In addition, there is another advantage in this reasoning. If goodwill is considered as a "gross value", there would be a higher probability of an impairment loss when testing goodwill for the first time. If the value of goodwill is recognized as a net value, there are lower possibilities of impairment losses, because of the recognition of a deferred tax provision. In fact, the measurement of a business as a "going concern" must take into account the average future earnings, net of all costs and liabilities, thus including deferred tax provisions relating to goodwill.

In conclusion, it is possible to state two principles:

(1) In business combinations where it is possible to identify a "transferor party" and a "transferee party", the contractual price is the consideration value of the transferred business, net of all liabilities. These necessarily include the deferred tax provision relating to goodwill;

(2) The alleged impossibility of calculating deferred income taxes relating to the item "goodwill", when there is a difference between its carrying value and its tax base, is caused by the mistake in the interpretation explained above. Deferred tax provisions relating to goodwill can be easily measured arithmetically.

The research has shown how important and controversial the issue of the accounting treatment of deferred income taxes on goodwill is. The Italian listed companies that were examined often do not comply with the accounting treatment required by international standards in terms of deferred income taxation on goodwill. Therefore, it can be argued that the accounting treatment provided by IFRS is not completely acceptable, as proved with the arithmetical solution explained above.

However, this paper suffers certainly from some limitations, for instance, the low number of countries under investigation. For this reason, the research could extend to analyze other countries of the European Union or to other items of financial statements, such as brands, in order to investigate whether other listed companies comply with the provisions of international standards.

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Status and the Future of Organic Farming in the Republic of Macedonia and the Mediterranean Countries

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In order to create or design a development, it is necessary to have a look backwards. To identify and understand the resources based on the possessed knowledge, steps for development are proposed. But, no less important is to understand the surrounding, what others are doing/planning, as it will save precious time in inventing something which is maybe already implemented elsewhere. Based on that assumption, this paper deals with the analysis of the current status of the organic farming (O.F.) in Macedonia and the Mediterranean countries, as they are closest to the soil and climate conditions that exist in Macedonia as well. This paper will try to give answer to the question "how to maintain the present level of development and to set parameters which should be used in order to reach further development". The analysis process was implemented by using SWOT (strength, weakness, opportunity, and threats) analysis for Macedonia and the Mediterranean countries. The analysis result indicates that there are numerous common factors, resources, structures, and gaps in the organic sector. This paper's goal is to present a list of strategic goals and instruments for development of O.F. in Macedonia and Mediterranean countries. The data related to the facts and visions are referred to the Republic of Macedonia, but relevant data on EU countries, candidate-countries, and south Mediterranean countries are presented as well. The conclusions are with special accent to the new possibilities for development of O.F. in the near future, especially through applicative scientific research activities.

Keywords: organic farming (O.F.), analysis, development, data, visions, improvement, efficiency

Introduction

As compared to the conventional, organic farming (O.F.) is characterized by several different specifics. Holistic and environmental approach gives this kind of farming unique production dimension, given the influence of ambient conditions which tends to differ even on micro-regional level. In the first decades of the 20th century, scientifically formed concepts were brought into the traditional instinctive approach to nature. Change of lifestyle laid the foundations for changes in nutrition, hygiene, and physical culture. It was based not only on an attempt to adapt life to nature, but also on scientific knowledge (Sharapatka & Urban, 2009).

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Organic Trade Association (2010) revealed that U.S. sales of organic products continued to grow during 2009, whereas organic food and non-food product sales in that year grew by 5.3%, despite the distressed state of the economy (Reine, Pugliese, & Al-Bitar, 2010). The organic production methods attracted also the attention of local governments and economic operators and found space in discussion platforms and official strategies papers (Al-Bitar, Bteich, & Pugliese, 2010). The facts and figures about organic agriculture statistics in this area have almost doubled between 2001 and 2007 (Al-Bitar & Pugliese, 2008) and continued to increase in terms of organic agricultural land. In 2008, with more than 143 thousand operators, organic agriculture in the Mediterranean covered an area of about five million ha of which around 1.3 million ha of wild collection and forests, mainly concentrated in Eastern Adriatic and some South-Eastern countries (Al-Bitar et al., 2010). Many non-EU Mediterranean countries already have a national law (Tunisia, Turkey, Serbia, Croatia, Macedonia, and Montenegro) and a well-developed export market (Morocco, Tunisia, Turkey, and Serbia), while local markets are still emergent. After close study of the SWOT (strength, weakness, opportunity, and threats) analysis performed in Macedonia and by the Mediterranean countries, it is clear that there are numerous common factors, resources, structures, and gaps in the organic sector. The research goal in this paper is to present in a sublimated referent document in a form of listed strategic goals and instruments for development in Macedonia and Mediterranean countries. Much indicates that the highly applied research has had a very important part to play in the development of the sector. But rarely have research programs been analyzed and evaluated on their effect on a sector of society and this is generally thought to be quite difficult, among other things, because it can be difficult to distinguish the contribution from research from those of other development forces.

Materials and Methods

The data related to the conditions in the Republic of Macedonia are based upon own research activities, as well as of the Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia (Retrieved from http://www.mzsv.gov.mk/organsko_zemjodelsko_proizvodstvo2013.pdf), statistical publications which are in majority of the cases published in the *National Plan of Organic Farming 2013-2020. The National Plan for Organic Production 2013-2020* was adopted by the Government of the Republic of Macedonia on the 178th session held on December 30, 2013. The part of the document which is related to the situation in Mediterranean countries is performed through processing data published by the Mediterranean Agronomic Institute of Bari—Italy. Relevant facts and data from scientific research activities and possibilities of their applicative purpose, which are presented in this paper, were taken from the publication of the International Centre for Research in Organic Food Systems (2011). Using comparative and analytical methods, own and other researchers' interview results, strategic goals for O.F. are emphasized for Macedonia and Mediterranean countries.

Results and Discussions

In 2007, the Government of the Republic of Macedonia has adopted the National Strategy for Agriculture and Rural Development in which a strategic goal is defined for development of agriculture and the rural sector for the period from 2007 to 2013, and which states to strengthen the agriculture in order to become competitive on integrated regional markets of EU and SE Europe through:

- improving efficiency of agricultural production, processing, and marketing;
- establishing relevant public and private institutions;

- improving farm efficiency;
- ensuring consumers who have access to safe and healthy food;
- optimizing the use of limited resources ,such as soil, water, and forest;
- establishing vital rural communities through sustainable rural development.

The National Plan for Organic Production 2013-2020 relates to the following parts of organic production: (1) production (plant production and animal production); (2) processing; (3) trade; (4) research, education, and science; (5) policy, legislation, and control; and (6) input materials. Based on performed SWOT analysis on different subsectors in agriculture, analysis of the conditions in O.F. is performed and strategic goals are set, as well as specific policy goals and activities that are to be implemented during this time frame. In the action plan for O.F., several activities are set, such as: area of intervention, activities, approach, and time frame for task completion. The development of the organic sector in Macedonia till 2011 records steady growth as presented in Figure 1 (Retrieved from http://www.mzsv.gov.mk/files/National%20Plan%20for%20Organic%20Production_2013%20-%202020.pdf).

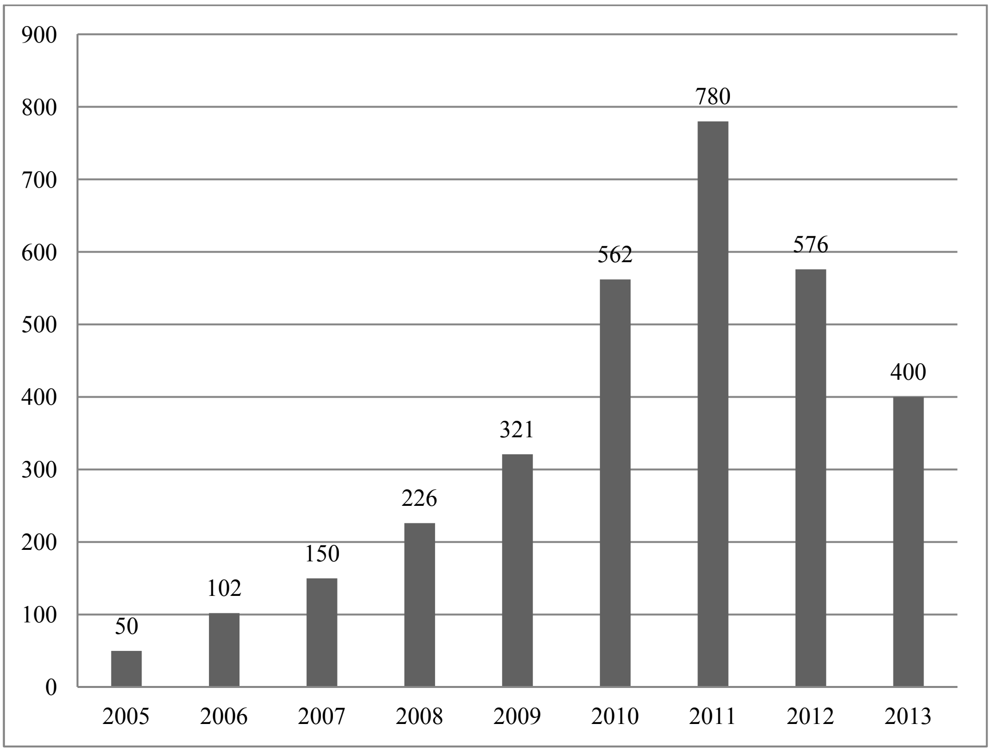

Figure 1. Number of operators 2005-2013 in Republic of Macedonia.

Driven by the increased number of operators and processing facilities in the past few years, the governmental support increased the level of subsidy in this sector as presented in Figure 2 (Retrieved from http://www.mzsv.gov.mk/files/National%20Plan%20for%20Organic%20Production_2013%20-%202020.pdf).

Similar is the situation in the remaining Mediterranean countries, too. More and more subjects are joining thus contributing to the expansion of production facilities. In the past few years, a growth trend is recorded, since many operators are joining and processing facilities are expanding as presented in Tables 1 and 2 (Organic World, 2015; Al-Bitar, 2008).

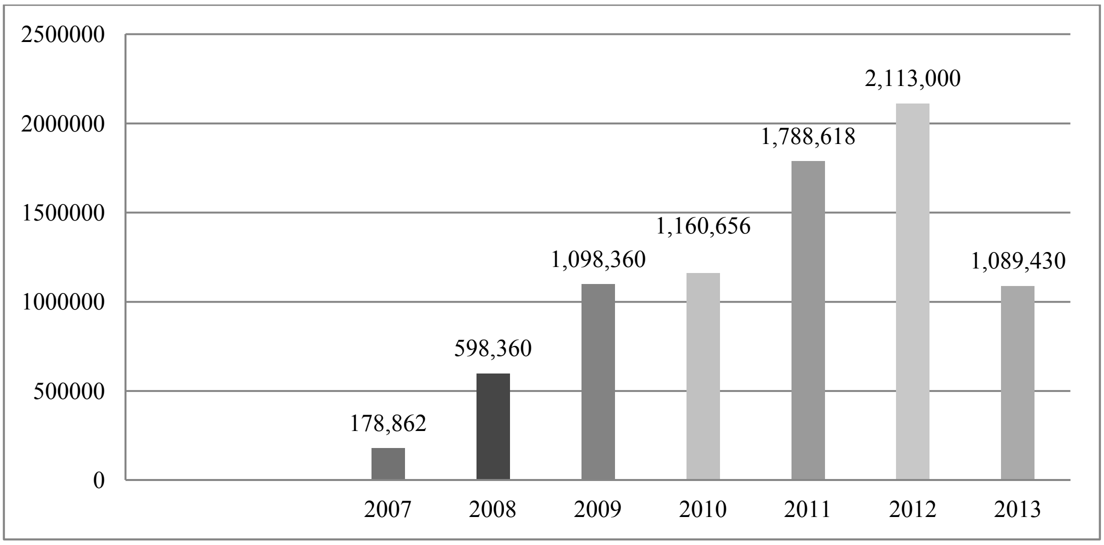

Figure 2. Level of financial support in organic farming 2007-2013 (in €).

Table 1

Certified Area Under Organic in the Mediterranean Basin

	Indicator—Year								
	Area (ha)								
Country	2005	2006	2007	2008	2009	2010	2011	2012	2013
Albania	1,170	142	183	331	271	284	360	425	662
Algeria	887	1,550	1,550	1,042	622	623	692	700	700
Bosnia and Herzegovina	416	726	691	691	580	580	343	343	292
Croatia	3,124	6,145	7,561	10,010	14,194	23,352	24,820	29,342	40,641
Cyprus	1,698	1,979	2,322	2,322	3,575	3,575	3,502	3,124	3,923
Egypt	24,548	14,165	19,206	40,000	56,000	82,167	82,167	85,801	85,801
France	550,488	552,824	557,133	583,799	677,513	845,442	727,227	954,099	1,053,829
Greece	288,737	302,264	281,042	317,824	326,252	309,823	195,273	454,154	383,606
Israel	4,557	4,058	5,693	6,400	6,969	8,794	7,095	6,187	7,471
Italy	1,069,462	1,148,162	1,150,253	1,002,414	1,106,684	1,113,742	1,000,744	1,071,799	1,317,177
Jordan	10	1,024	1,047	1,053	1,053	1,469	2,567	2,895	2,898
Kosovo	No data	No data	No data	No data	No data	No data	11	111	114
Lebanon	2,465	3,523	1,946	2,180	3,332	1,227	3,303	3,303	2,571
Libya	No data	No data	No data	No data	No data	No data	No data	No data	No data
Malta	14	20	12	12	26	24	23	34	37
Montenegro	No data	25,051	25,051	1,876	4,603	3,561	3,068	3,068	3,068
Morocco	1,139	4,216	3,590	3,450	3,800	17,030	17,030	16,600	8,660
Portugal	211,501	214,242	229,717	211,071	151,460	201,054	200,151	195,974	271,532
Republic of Macedonia	249	509	1,333	3,380	6,213	35,164	26,431	12,589	3,146
Serbia	No data	740	830	4,494	8,661	8,635	6,237	6,340	8,228
Slovenia	23,499	26,831	29,322	29,838	29,388	30,696	30,320	33,776	38,665
Spain	622,762	736,939	804,884	1,129,844	1,330,774	1,456,672	1,574,904	1,428,578	1,610,129
Tunisia	143,099	154,793	154,793	174,725	167,302	175,066	178,521	137,188	139,087
Turkey	93,133	100,275	124,263	109,387	325,831	383,782	320,451	343,086	474,766

Table 2

Organic Crops Grown in the Mediterranean Basin

Cluster	Country	Main organic products
		Cereals
	Albania	Medicinal herbs, aromatic plants
	Bosnia & Herzegovina	Fresh vegetables
	Croatia	Green fodder
Eastern Adriatic	Macedonia	Fruits and berries
	Montenegro	Grapes
	Serbia	Bee pastures
		Wild collection products
		Olives (Albania and Croatia)
	Egypt	Cereals
	Jordan	Fresh vegetables
	Lebanon	Medicinal herbs, aromatic plants
	Palestine	Fruits
	Syria	Grapes
	Turkey	Citrus
		Olives and olive oil
	Jordan	Date palm
		Wild collection products
		Animal products (eggs, goat milk, and dairy products)
	Lebanon	Essential oils
		Dried fruits
Mashrec		Processed products
	Syria	Cotton
		Dried pulses
		Root crops
		Cotton
		Oilseeds
		Green fodder
	Turkey	Pastures and meadows
		Wild collection products
		Dried fruits
		Animal products (bovine, ovine, poultry, and bees)
		Processed products
		Cereals
		Fresh vegetables
		Medicinal herbs, aromatic plants
	Algeria	Green fodder
	Libya	Fruits
Maghreb	Morocco	Date palm
	Tunisia	Citrus
		Olives
		Grassland
		Wild collection products
		Argan (only in Morocco)

One of the most significant obstacles is insufficient number of inputs on the market: seed and pesticides allowed for use in O.F. The next weak point is insufficient and irregular campaign on beneficial effect of organic food on human health. Poor pre-organic farm establishment procedure and the absence of Higher Education Institutions in the knowledge transfer system is another key obstacle for the development of O.F. (Zlatkovski, Mihajlov, & Mitrev, 2015). Furthermore, the education level and low level of organic farmers' organization are another weak point on the road for local and national development of O.F. IPARD (Instrument for Pre-accession Assistance and Rural Development) funds are unused as well, especially on the measures meant for processors and storage facilities, specialized and certified enterprises for processing and packaging.

Few number of tourist facilities are offering organic menu. Furthermore, underdeveloped sector of rural tourism makes its contribution to the slow development of O.F., too.

The status of the O.F. research outside Macedonia is mainly concentrated in Europe, considered the cradle of organic research (Wilier, 2009). However, in the last few years, studies and experiments on O.F. and practices started emerging in other parts of the world involving several actors. Some of them are the Organic Centre of Canada (OACC), the Brazilian Agriculture Research Corporation (EMBRAPA), and the Rodale Institute in the U.S. Other research activities related to O.F. are mainly carried out by universities. All these initiatives have a common objective which is the collaboration for the promotion and enhancement of organic research worldwide (Reine et al., 2010).

To date the EU contribution to the development of research in organic agriculture has included the funding of around 70 research projects that refer directly (explicit reference in the title) or indirectly (mentioned as part of the topic) to organic agriculture (Zanoli, 2009). The first contribution of EU to organic agriculture research dates back to the FP2 (1987-1993), where in organic agriculture was mentioned as part of the extensification and diversification of agricultural production. At present, only three research projects entirely concern organic agriculture in FP7 (2007-2013), probably due to the overall limited research funding (Zanoli, 2009). Across the Mediterranean, the transfer and dissemination of organic agriculture research results are carried out by means of two main tools: publications and training courses. Internet websites appear to be an important tool for results sharing, diffusion in EU but not in CPC (candidates and potential candidates countries) and SEM (South and East Mediterranean) countries, where more probably farmers and other actors of the agricultural sector still do not have easy access to the computer technology (Reine et al., 2010).

According to the opinions of many researchers, the main research priorities for organic research in the Mediterranean need to be:

- In Macedonia and other CPS country: pest management/plant protection, soil fertility management, agroecology and biodiversity, market study, and promotion;
- In SEM countries: plant protection/biological control, soil fertility management, postharvest and food processing, quality control, and inspection system;
- In EU Mediterranean countries: plant and animal genetic resources, cropping systems, market study and promotion, improving knowledge, and technologies.

Conclusions

According to the results of the current situations and researches in Macedonia and Mediterranean countries, the new opportunities in the near future for development of O.F. especially through applicative scientific research, are in key strengths that are identified by the following real facts and conditions:

- the high qualification of human resources involved in research in organic issues; the existing infrastructures (laboratories and experimental farms) available for research in organic agriculture in Macedonia and Mediterranean countries;
- an adequate transfer of the research results mainly through publications and workshops.

As most influential weaknesses, this paper emphasizes:

- the small number of centers fully specialized in organic research;
- lack of long-term experiment in organic agriculture in Macedonia and Mediterranean countries.

For further work to support organic research in the Mediterranean region, it would be useful to:

- continue monitoring the evolutionary trends of organic research in the Mediterranean in order to base future support initiatives on a comprehensive and updated picture of the situation;
- identify the practical problems of the sector and try to find out how research may contribute to their solution;
- participate in regional Mediterranean and International projects trying to convey and consolidate common interests;
- establish relations and partnership and develop networking at Mediterranean and international level for a better exchange of information and sharing of experience.

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Management of the Higher Education Institution in the Ethical Actions Context

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Managing the university in the context of ethics is one of many elements in the management of this specific organization. The task of university is functioning based on universal values, mission, vision, ethical codes, and responsibility and worthy behavior towards internal and external environment. In the era of globalization and constant changes, only a modernly managed higher education institution, acting according to principles of ethics, is able to meet requirements of surroundings. Behaviors of academic community should promote ethical actions in higher education institutions. It should be noted that the reputation, prestige in higher education, should also be based on the proceedings consistent with ethics.

Keywords: managing the higher education institutions, ethics, ethical actions, ethical code, ethical principles

Introduction

All of these activities, which occur in the process of higher education management, should be carried out according to ethical behavior.

> Higher education institutions, more and more clearly, are becoming part of a course of socio-economic changes in our country and all over Europe. Universities must not only follow this trend, but in many cases, they should create it. Therefore, the management of a modern university comes not only to initiate the development of new technical and organizational solutions or improve the of teaching staff and the teaching process, but primarily it focuses on preparing students to work in a globalizing, integrating, and faster and faster changing economy. (Dworak & Jaworski, 2011, p. 11)

University management is "formal and informal exercise of authority, in harmony with provisions, the politics and principles, which define the rights and responsibilities of various participants, including the rules for their cooperation and interaction" (Hirsch, Weber, & Luc, 2001, p. 23). Ethical behavior associated with functioning of the higher education institutions is one of these rules.

The most important values in higher education are true, professionalism, responsibility, fairness, and non-combativeness.

Kloc and Chmielecka (2004) recognized certain dangers for higher education in relation to ethics. They claimed that,

> Threats to the academic ethos result mainly from the decreasing role of the value in the academic and social life, as well as the increasingly widespread lack of concern for the common good—displaced by particular interests. Transfer to

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> university life bad patterns from social environment; commercialization of education—visible in functioning of higher education institutions, as well as behaviors of their employees; lack of condemnation for breaking ethical standards—both in public life and in the academic community. (p. 9)

Therefore, it is necessary to do something to the ethos of higher education remained untouched.

Ethics in the Organization—The Basic Issues

Ethics is, by definition, the science of morality. Morality is a primitive notion and it does not have a definition. Researchers interested with this issue, trying to describe it as "a rational characteristic of every conscious and free human act and the perpetrator of this act—the human person" (Stępień, 1995, p. 104). Ethics is a set of standards which define what is right and wrong in human conduct (Bańko, 2007, p. 282).

According to the State Scientific Publishers Encyclopedia, ethics, in the colloquial sense, is the set of assessments and moral norms in a selected era and social communities or their specific system, i.e. the morality; in the philosophical sense, it is the science of morality, considered separately in two aspects: as a normative science of morality (so-called normative ethics) and descriptive—explanatory as the science of morality (descriptive ethics or ethology). Ethics in the normative aspect deals with establishing what is morally right and what is wrong. Based on accepted assessment and related duties, it determines directives—positive moral standards of conduct and indicating manners of transforming the widespread morality in order to adapt it to accepted moral ideal. Normative ethics is usually divided into: axiology (the theory of value) and deontology (the theory of duties). Ethics in the descriptive aspect is devoted to analyzing description and explanation of clarifying the adopted morality (widespread) in different ages and social environments, signposting sources, structure, and function of morality as a form of social awareness and detection of the correctness of its development (Dyczkowski, 2000). The literature identifies the issue of general ethics (fundamental) and specific ethics (Ślipko, 2002). The general ethics usually includes issues related to moral goods in correlation with being in a general sense; the specific ethics includes, in the strict sense, the subject of moral efficiency in relation to the moral person, as to itself, as the others (Migoń, 2013).

Relating ethics to the organization, the term of professional ethics is adopted, which could be defined as a set of norms appointing moral duties related to the occupation and professional social relations (Rawicz, 2007). Ethical codes do not provide ready solutions to all the dilemmas, which can be found in the work. Some decisions need to be taken independently, based on life and professional experience. The mission of professional ethics is to build a good image of the profession and enhance public confidence. The code of ethics is a measure that complements the legal provisions and creates a sense of responsibility for the consequence of activities (Czyżewicz, 2007).

Role of Ethics in Organization Management

Human resource management, in the context of ethics, is defined as "actions taken by the organization, which aim not only to increase the productivity and quality of work, but also to take into account the possibilities of staff and a variety of their needs and goals" (Moczydłowska, 2010, p. 220). In this kind of management, the principles of respect for human beings, mutual respect, procedural justice, transparency of taken actions during the taking employment, its duration, and termination must be applied (Kunecka, 2013). Ethics in the management of the organization is classified in three levels:

- as the attitude of the organization to the employee—determines behavior, adherence to ethical norms by manager, includes a recruitment and dismissal process, work and pay conditions, the scope of employee privacy, and mobbing;

- as the attitude of the employee to the organization, among others, a problem of the professional confidentiality and honesty;
- as the attitude of the company to other entities, which also depends on behavior of managers and their ethical norms; in relation to the consumer include upholding of the standards of products and services, in relation to other companies adherence to the principles of the fair competition, in relation to other organizations—honesty.

Authorities managing the organization are "people who can competently, professionally, and effectively carry out the functions of management, competently combining interests of the enterprise with the interests of its stakeholders, respecting the legal and ethical principles and of norms of the community life" (Kietliński, Reyes, & Oleksyn, 2005, p. 197). Authorities avoid prescriptive style of leadership, especially when they are working with employees who are competent and have a high morale (Kietliński et al., 2005).

Management of Ethical Activities in Higher Education

The university authorities, fulfilling their professional duties, respect the ethical standards as an authority for the local environment, pupils, and students. They care about the high level of professional ethics of all the other people working in education. It is recognized that the university is a public or private good, serving the society. The main goal of action is a comprehensive development and upbringing of students. The university authorities are responsible for competent management of educational institution, in such a way as to satisfy the statutory objectives. This responsibility demands to comply with standards in the management, the teaching, and the upbringing. University managers have the following roles:

(1) as the goal of all actions put the students' good and development;

(2) integrate the university community, build relationships based on trust, kindness, and cooperation;

(3) inspire and create conditions for professional development of employees. Through self-development and improvement, workshop becomes a model for others;

(4) act fairly, honestly, and impartially;

(5) do their job with dignity and honor; prevent lowering its rank and authority;

(6) perform the guidelines of national education policy;

(7) apply laws and work for change of the ones, which badly serve the education;

(8) work for the establishment of standards of managerial work and act in accordance with them;

(9) increase the level of effectiveness of their subordinate their area of activities and make efforts to improve the education system;

(10) do not use their position for personal gain.

It is noted that the university ethical code allows to improve the trust between employer and employees, enhances the internal organizational culture, helps to resolve morally questionable conflicts, and thereby, takes care of the working environment. Surroundings receive the university orientated to ethical action as the organization worthy of trust, with the professional image and adequate reputation, which in effect has a positive impact on its efficient functioning (Gasparski & Dietl, 2001).

The ethical code in the organization is inseparably connected with action, such as (Sroka, 2012):

- determination of value of the enterprise;

- review of the organization in the context of ethics;
- review of politics, documents, and the organization's regulations;
- identification of the basic principles through the consultations with employees;
- development of a code of ethics with comments and explanations;
- development of policies for implementing the principles of the code of ethics;
- building ethical infrastructure, which allows employees to report about infringements;
- appointing the spokesman or spokesmen of ethics;
- providing training for employees;
- including principles of the ethics code in the scope of the internal audit, code of ethics constant communication.

Ethics in higher education refers both to the academic staff, doctoral students, and administrative employees and to the students. An example of ethical action at the university can be Czestochowa Technical University and its Ph.D. student code, which includes such tasks in the field of ethics as (Annex to the Resolution of the Senate of the Technical University of Czestochowa No. 333/2011/2012 dated on February 22, 2012):

- following the moral and ethical objectives universally adopted in the society;
- obeying all laws, in particular, the *Act—Law on Higher Education*, interior and other legal acts, which are applied at the university;
- constantly expand knowledge, improve scientific and teaching skills, aspire to the development of the own personality;
- respecting the laws and academic habits with one's behavior to take care of dignity and honor of Czestochowa University of Technology Ph.D. student;
- fulfilling duties which are included in the rules of doctoral studies:

(a) fairly and diligently carrying out research;

(b) complying with the rules of copyright and intellectual property rights protection;

(c) implementing the generally accepted ethical principles and communicating them to students during teaching activities;

(d) expressing views guided by the objective considerations of substantive;

(e) taking care of prestige and good image of the Technical University of Czestochowa and respecting its traditions;

(f) following the principles of solidarity with all members of the academic community;

(g) participating in social and organizational life of the university;

(h) applying and disseminating in the academic environment ethical values described in the code.

It is noticed that the university ethical code has many advantages (Gasparski & Dietl, 2001):

- including in code, claims, and expectations as to specific behaviors of particular persons; motivating and confirming these persons in their proceedings;
- establishing long-term guidelines for correct and improper conduct;
- helping to solve problems especially in situations ethically questionable;
- provisions included in it, concerning not only employees of different levels, but also employers, which formed the basis of the values, principles, and rules of conduct.

Therefore, it seems very important in university management that the basic principles and good manners were formulated in a precise way (it should go beyond the requirements of the common law and other regulations relating to university). There are 10 fundamental rules of the *Code of good practices in higher education institutions* (Szostek, 2007):

(1) Principle of the public service. According to the best academic tradition, universities are appointed for the completion of the mission of exploring and of promoting the truth. Rightly understanding the university culture requires that this mission was realized by pro bono activities. University, conscious of its significant social meaning, strives to, through the reliability of the research and the education of future cultural and political elite, contribute to accumulating the national common good and to reinforcing the mature democracy;

(2) Principle of impartiality in public affairs. The university has the privilege of being a respected institution of public life. A social great responsibility is involving with its functioning. It demands that when participating in the public life and especially speaking in significant socially matters, the university must be impartial and objective;

(3) Principle of legalism. Universities, in their activity, not only obey the law, as they are required in the state of law, but also they shape, among students and the entire academic community, a culture of respect for law and impartial applying principles and procedures, determined by the competent authorities. Also, possible discontent at the concerning the university regulations, accepted in the state, should be demonstrated in a way that complies with legal norms;

(4) Principle of autonomy and responsibility. The autonomy of the university, for which standards are defined by the act, includes the right to self-determination by the universities own mission and the consequent specific objectives and tasks, as well as many regulations. However, using its autonomy, university has to interpret the resulting entitlements in such a way that in the best style effectively operates in society for the benefit of the responsibility for the common good;

(5) Principle of separation and balance of power in the university. An important element of set of good practice in university management is legal and cultural rules for the implementation of the principle of balance and the division of competences among the rector as a single body, the senate as collegiate body, as well as peer tribunal and disciplinary committees, benefiting the possibility of independent judgment. Therefore, it should be emphasized that a rector and a senate are two independent and different bodies, none of which has authority over the other. Sign and proof of separation of these two authorities and their balance are statutory rules, according to which the rector neither indicates members of the senate, nor does the senate choose the rector; this is done by the competent authorities of the election. Fulfilling its tasks, both rector and the senate, should not only base on formal-legal conditions, but also refer to the conditions, resulting from the institutional culture of the university, which requires respect for the observance of good practice in the operation of both university bodies;

(6) Principle of creativity. Managing the university or its unit (faculty, institute, etc.) requires creativity. It does not allow to confine passively upholding the existing policies, but expresses itself in taking initiatives to develop the university. These initiatives must have strategic character and should also be taken responsibly and consistently strive to achieve tasks. They are determined by the university authorities, which take into consideration their substantive importance, financial and personnel possibilities, as well as the perspective of cooperation with other entities. Previously certified ability to be creative should be an important criterion in the choices or the competitions for managerial positions;

(7) Principle of transparency. To consolidate the university reliability, especially in the rational use of resources and to avoid nepotism, corruption, and other cases of abusing power, it is necessary for all procedures related to the tasks and education or research initiatives, competitions for positions, promotions and rewards employees, and recruitment and promotion of students to be open and just;

(8) Principle of subsidiary. The authorities should respect the principle of subsidiary, which obliges to respect the competences and initiatives of lower authorities and individual employees. This principle obliges everyone to observe the official channels in dealing with matters, always with the right to the appeal at settling of matters of contention. The appeal authority is obliged to timely and factual response to the objections raised by the employees;

(9) Principle of the respect for the dignity and tolerance. Bearing in mind the dignity and reputation of all members of the academic community, universities follow the principles of trust, respect, and tolerance for all permitted by law ideas, attitudes, and lifestyles. The right to privacy is respected and conflicts are resolved through discussion between the sides, which treat each other with respect and accept their rights;

(10) The principle of the universality of research and education. The traditional and contemporary mission of the university requires it to be a public institution, through research and education including achievements of world science and concern for the good of all mankind. Universities should increase the number of international contacts and aspire for providing the right place for themselves in the international academic community.

Conclusions

Institutions of higher education is one of the oldest forms of organization in the world. One of the values that universities contributed to the development of civilization is their organizational and cultural legacy. However, to remain and act as efficient and reliable organization, which serves many important functions in society, contemporary universities must take care of its reputation and research position in accordance with modern concepts of management of the organization (Mizera, 2011).

The university authorities, in the management of ethical actions in this specific organization, must be competent and well cope with internal and external contacts—with the environment, to achieve ranks on high places in rankings of higher education institutions (Mizera, 2011).

Only ethical conduct in the whole structure of the university, from authorities to students can provide a coherent system of its operation. Students existing in ethical university surroundings will be able, in the future, to fill up civil and professional tasks in the building the knowledge and the morality society. The strategic role in this aspect is assigned to the university authorities and academic teachers (Fullan, 2006). During functioning amongst norms, expectations, and the values, they should: (1) serve the truth, the justice, the freedom, and the partnership; (2) stimulate attitudes and aspirations, which promote scientific, social, and technical progress, guided by integrity in the performance of duties related to science and teaching; and (3) work on the scientific and pedagogical improvement of students (Kiedrowicz, 2004). Effective academic teacher during classes should try not only to transmit the knowledge, but also to allow its use in practical terms, in accordance with the principles of ethical conduct (Cichoń, 2013). Effective management of the university (in the organizational, socio-economic, process, quality, marketing, ethical, oriented to the knowledge, and the value aspect) is a determinant of dealing with a changing environment.

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The Entrepreneurial Marketing Concept and Its Application by the International New Ventures

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For the last two decades, there has been an ongoing research concerning the international new ventures (INV) or born global (BG) companies which are rapidly entering foreign markets. They face challenges connected with their marketing activity, because they launch relatively more product innovations in a shorter time than the gradually internationalized companies (GRAD). The entrepreneurial marketing (EM) concept could become a solution to some of these challenges, because of a greater entrepreneurial intensity (EI) and different decision-making approach than "classical" marketing concept. This study's aim is to analyze the EM concept and application of its elements by the INVs originating from Poland. Based on two computer-aided telephone interview (CATI) studies of INVs from the Polish industrial processing sector, the central elements of EM, applied by them, are explored, together with their relationship to INV performance. As it is shown, the INVs introduce significantly more product innovations than the gradually internationalized small and medium sized enterprises (SMEs). They often exceed competitors in the speed of launching innovations and are flexible in entering new markets. The entrepreneurial orientation (EO) indicators are at low to medium levels in all studied SMEs. However, the propensity to risk is slightly stronger in the INVs and correlated moderately with the financial performance. As the study shows, lack of emphasis on marketing planning and information gathering is the characteristic of the Polish INVs, which may testify to their effectual approach to decision making. Furthermore, similar as in the foreign-based INVs, there may exist a relationship between the application of the EM concept and performance of the Polish INVs, which, however, requires further study with respect to some mediating factors. It has been concluded that innovativeness of the product offering and propensity to risk seems to be the characteristic EM concept elements accompanying the rapid internationalization of INVs. The future research should focus on other elements of the EM-mix applied by INVs originating from emerging economies.

Keywords: entrepreneurial marketing (EM), international new ventures (INV), innovativeness

Introduction

There has, recently been an increase of scientific interest in the internationalization of small and medium sized enterprises (SMEs) and their activity on the foreign markets. As some internationalization studies show, among the small internationalizing companies, which often lack sufficient funds and experience, the challenges

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connected with conducting effective marketing activity abroad are especially important (Luostarinen & Gabrielsson, 2006). One solution to this problem can be the application of entrepreneurial marketing (EM) concept, which has recently been gaining popularity (Becherer, Haynes, & Helms, 2008; Gilmore, 2011; Mort, Weerawardena, & Liesh, 2012).

This study's aim is to analyze the concept of EM and its implementation by the international new ventures (INV), with a particular focus on such firms originating from Poland. In the last years, export has been the main factor contributing to the Polish gross domestic product (GDP) growth (Główny Urząd Statystyczny, 2014). In 2012, the annual SMEs' export volume increased by double the rate of the export increase in the large-sized Polish firms. The SMEs have been responsible for over 40% of the exports of Polish products and among them especially the small enterprises have been internationally active (Retrieved from http://www.parp.gov.pl/raport-o-stanie-sektora-malych-i-srednich-przedsiebiorstw-w-polsce-w-latach-2011-2012). Thus, the focus of this study is on INVs defined as "business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries", also called "born global" (BG) enterprises (Oviatt & McDougall, 1994; Crick, 2009). The phenomenon of early and quick internationalization of these firms raised attention of scholars two decades ago, as it is in opposition to the traditional incremental route of going international (Madsen & Servais, 1997). Some of the recent studies (Jarosiński, 2013; Kowalik & Baranowska-Prokop, 2013; Cieślik & Kaciak, 2009) have shown that this internationalization route is also followed by the Polish SMEs. Therefore, it is interesting to find out what approach to marketing such companies apply and especially what elements of the EM concept, if any, are important in their activity.

There are several definitions of EM to be found in literature. According to the simplest approach (Kraus, Harms, & Fink, 2010), EM can be described as marketing activities with an entrepreneurial mindset, irrespective of firm size or age. Others claimed that it is the marketing of small firms growing through entrepreneurship (Bjerke & Hultman, 2002). Beverland and Lockshin (2004) defined EM as effectual action or adaptation of marketing theory to the particular needs of the small business. These effectual actions must simultaneously address many issues: opportunity, innovation, risk, and resource constraints. As Becherer et al. (2008) claimed, EM refers to the marketing processes of firms pursuing opportunities in uncertain market circumstances, often under constrained resource conditions. Morris, Schindehutte, and LaForge (2002) defined the term as the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management and resource leveraging for value creation. According to these authors, the EM's roles range from opportunity identification and concept generation to technical support and creative augmentation of the firm's resource base to support innovation. These aims can be reached thanks to the entrepreneur's ability of networking (Gilmore, 2011). Based on a study of American SMEs, Becherer et al. (2008) have extended the definition of EM by saying that it is an organizational orientation having the underlying dimensions of proactiveness, opportunity focus, calculated risk taking, and innovativeness, customer intensity, resource leveraging, and value creation. The EM approach has also been applied by the firms from developing economies. In a study encompassing five cases of Turkish BGs (Kocak & Ambibola, 2009), the entrepreneurial capital (including the skills of the manager), market orientation, entrepreneurial orientation (EO), and innovation were considered EM components and main sources of successful performance for these firms. A similar approach to defining the EM concept will be used in this study.

The majority of quoted EM definitions recognize innovativeness as one of the concept's crucial elements. Innovative marketing in SMEs is wider than simply product innovation, it covers the whole range of marketing activity within an enterprise (Gilmore, 2011). According to Becherer et al. (2008), innovation-focused marketing actions allow the firm to concentrate on new ideas that lead to new markets, products, or processes. Product innovation seems to play a crucial role in the SME internationalization (Hollensen, 2011). The successfully internationalizing SMEs are often characterized by flexibility in responding to customer requirements, leading to innovations in their offering and to entering new, geographically distant markets. The importance of this kind of approach to innovativeness was also confirmed by other studies of the Polish BG (Danik, Duliniec, & Kowalik, 2016; Danik & Kowalik, 2015). The results of the qualitative study of 10 Polish INVs mentioned above have shown that the maintenance of high product quality and customer focus was treated by managers/founders as key success factors in competition with other internationalized SMEs.

Another element of the EM concept is the international EO, which measures the extent to which the firm's strategic leaders are proactive, innovative, and risk taking in the exploitation of export marketing opportunities (Kocak & Ambibola, 2009). The EO has been measured in numerous studies, among which relate to international entrepreneurship regard special attention. Weerawardena (2003) and O'Cass and Weerawardena (2009) have applied an international entrepreneurship scale, also called entrepreneurial intensity (EI) scale, which was based on the conceptualization of McDougall and Oviatt's definition (2000) of international entrepreneurship. It contained statements regarding the company approach to competitors, opportunities, risk-taking, and innovativeness. The elements of that scale, regarding EI, are used in this study.

Another element connected with EM application is the characteristic decision-making style, included in the definitions as effectual action (Beverland & Lockshin, 2004). The so-called effectuation logic has been described by Sarasvathy (2001) in an opposition to "traditional" causation logic. Effectuation logic is characterized by emergent strategies and includes a selection of alternatives based on loss affordability and strategic alliances (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). It is connected with little planned action and little or no formal marketing research activity. Effectuation logic suits situations with high risk and uncertainty, while causation logic is more suitable when the future is predictable. In particular, Andersson (2011) has noticed the applicability of this approach to the analysis of BG internationalization. According to his findings, the BG companies do not need the complicated analytical, planning, and control activities for functioning. The entrepreneur-managers' mindset which is called global-vision and their ability to spot opportunities in an international environment are crucial for these companies' success. Moreover, in a study of nine BG companies (Mort et al., 2012), the authors found that a strategy based on an effectuation approach, which was substantially different from conventionally accepted marketing undertaken by established firms, contributed to the achievement of superior market performance in these small firms.

Taking into account the studies mentioned above and the earlier research on the INVs originating in Poland, it is supposed that the crucial elements of EM concept for these INVs in the international environment are innovativeness and EO. Moreover, it is suspected that on the foreign markets, which are characterized by a high level of turbulence and competitive intensity, the Polish INVs may apply effectual approach to marketing decision making. Therefore, the following hypotheses for study are suggested:

H1: The development of innovations influences the INV performance on the foreign markets;

H2: Product innovations are more important for the INVs than innovations concerning other marketing-mix elements;

H3: The EI influences the INV performance on the foreign markets;

H4: Causal approach to decision making is less frequent in the INV activity than effectual approach.

Materials and Methods

To explore the hypotheses, the data gathered during two research projects carried out in Spring 2013 and Autumn 2014 at the Warsaw School of Economics have been used. The projects aimed at studying the processes of early internationalization of the Polish SMEs. Two samples of Polish SMEs had been included in the studies. The firms were selected according to the criteria formulated by Knight, Madsen, and Servais (2004), concerning BG companies. They were Polish-based and owned SMEs, which have undergone rapid internationalization (within three years from founding) and have reached at least 25% share of export sales in the total turnover in the first two years from internationalization beginning. They all belonged to the industrial processing sector of the Polish Classification of Activity and represented its diverse branches (see Table 3).

In 2013, 256 INVs were drawn to join the sample out of the general population of 18,732 SMEs in the available database, with use of randomized algorithm in the software for telephone surveying. In 2014, by means of the same methodology, out of 19,594 records, 105 INVs and 128 gradually internationalized SME companies (GRAD) were drawn.[1] Following this selection, CATI interviews with export managers/sales directors of the companies were conducted.[2] The interviews lasted about 25 minutes; they contained closed, semi-open, and open questions regarding internationalization forms, product strategies, and performance on the foreign markets of the studied companies. In 2014, the questionnaire from 2013 was used in a slightly modified (extended) version.

The innovativeness of the studied companies was measured by means of several questions: (a) The companies were asked if they have introduced any innovations in their products or processes; (b) examples of such innovations were cited; (c) the speed of innovation introduction was assessed; (d) the companies were asked if they exceed the competitors with respect to product development and adaptation processes; and (e) if they exceed the competitors with respect to the speed of new product launch (answers to (c), (d), and (e), measured on five-point Likert scales). In addition, in 2014, two questions were included, concerning introducing innovations in the distribution policy and in the promotion policy (dichotomous scales).

The EI was measured by the statements, displayed in Table 1, adapted from Weerawardena’s scale (2003).

To learn about the INV decision-making activities, the companies were asked if “on their export market, considering their main product, compared to their main competitor, they are better at … marketing planning”. Moreover, the results concerning the frequency of research conducted before entering new markets were considered as indicator of the approach to planned decision making.

The performance of studied companies has been measured with several indicators. The general performance was measured as a response to the statement “taking into account the situation on local and international markets, they can claim that their company is successful compared to competitors” (answers on a

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[1] The GRADs did not fulfill the criterion of rapid internationalization within three years from founding, but they have reached at least 25% share of export within total revenues.

[2] The interviews were carried out by an external market research agency.

scale: from 1—"definitely no" to 5—"definitely yes"). The financial performance was measured as a response to a statement: "Taking into account the financial indicators (e.g. profitability) of their company, they can claim that it is successful compared to competitors" (answers on a scale: from 1—"definitely no" to 5—"definitely yes"). In addition, in 2014, the following indicator was included: "Please asses the state, in the last two years, of the general financial situation of your company" (three-point scale ranging from: "1"—"loss" to "3"—"profits").

Table 1

Entrepreneurial Orientation Indicators Used in the Study

Indicator	Statements in the questionnaire*
P.1	Statement (1): In dealing with our competitors we use the "live-and-let live" approach… Statement (2): In dealing with our competitors we have a very competitive "beat-the-competitors" posture.
P.2	Statement (1): In foreign market activity we undertake high risk ventures, if there are chances for high return… Statement (2): In foreign market activity we avoid risky ventures, even if there are chances for high returns.
P.3	Statement (1): In foreign market activity we often undertake "aggressive" actions, to make our competitors respond… Statement (2): In foreign market activity we try not to initiate "aggressive" actions, and rather adjust to the competitors' moves.
P.4	Statement (1): Before entering a new foreign market we undertake research concerning the chances of success on that market… Statement (2): Before entering a new foreign market or engaging in cooperation with a new partner we do not research the chances of success on that market.

Note. * The answers to above questions were measured on five-point semantic scales.

Results

Innovativeness of the INVs

The following results regarding the innovative activity of INVs were obtained. Of the 256 companies studied in 2013, 161 (63%) admitted that they have introduced innovations in their products or processes (see Table 2). Moreover, 65 (25%) of them introduced innovations to the market in a faster way than their competitors. It is also worth mentioning that 110 (43%) companies claimed that their products were more technologically advanced than competing products, and the offerings of 62 (24%) studied that INVs lacked similarity to any other products currently on the market.

Table 2

Innovation Types and Speed of Introduction by the INVs (2013, Numbers of Answers)

Innovation types	(1) Our company introduces product and technological innovations faster than the competition (2) Our company introduces product and technological innovations only after the competitors have done so					Total
	Definitely statement 1	Rather statement 1	It is difficult to say	Rather statement 2	Definitely statement 2	
Product innovations*	16	17	28	3	3	67
Purchase of new production technology	9	6	23	9	2	49
Process innovations**	7	4	10	3	0	24
Innovation type not revealed due to a commercial secret	3	3	6	1	0	13
Total	35	30	67	16	5	153

Notes. * includes: new products, new packaging, improved functionality, product's new form, and shape; ** includes: improving the production process, reducing the energy intake, and using more sophisticated production processes.

Innovativeness of INVs can also be expressed by their high flexibility in considering alternative markets. In the 2013, sample 44 (18%) companies indicated that their main product offered on export markets was different from the basic branch of local activity. The examples of such export products included: furniture and metallic goods offered by plastic articles manufacturers or electrical equipment and building services offered by timber and cork goods producers (see Table 3).

In the study of 2014, innovation types introduced by the INVs were analyzed and compared with those introduced by GRADs (see Table 4). Two more questions regarding innovative activity were also added, i.e. (1) "Does the company introduce any innovations in its distribution channels" and (2) "does the company introduce any innovations in forms of promotion". It has been found that INVs introduced significantly more product/production technology innovations than the GRADs, and significantly less marketing/promotion innovations than the GRADs. The numbers of companies introducing innovations in their distribution were low among both types of companies studied. Thus, the results concerning product innovations of INVs provide support for hypothesis 2.

Table 3

Differences Between the Studied INVs' Classification of Local Activity and Main Export Products (2013)

Industry (Polish classification of activity)	No. of studied companies	No. of companies indicating different export product than local product*	Examples of main export products
1	2	3	4
Metal production	24	9	Tools, transportation equipment, printing services
Rubber and plastic goods prod.	20	5	Furniture, metal goods
Timber and cork goods prod., excl. furniture, straw articles and materials for kilning processes prod.	17	4	Electrical equipment, building services
Machinery and appliances prod. unclassified elsewhere	15	4	Metal goods
Furniture	15	3	Wooden goods, baskets
Computer, electronic and optical goods prod.	9	2	Vehicles, metal goods
Food-processing industry	36	2	Rubber goods, chemicals
Remaining non-metallic mineral products manufacturing	6	2	Tools, wooden goods
Paper and paper products manufacturing	5	2	Pharmaceuticals
Tobacco products	2	2	Fuels, machinery
Other branches	95	10	
Total	244	45	

Note. * in column "3" and the numbers of companies from column "2" who changed their products for export markets are included.

In course of further study, to assess if there is any relationship between innovativeness and performance of the INV, correlation analysis of the innovativeness and performance indicators was conducted (Table 5).

The results in Table 5 show that in 2013, these INVs which exceeded the competitors with respect to product development and were faster at product launch, had better general and financial performance indicators, than the rest of studied INVs. However, the correlation strength between the indicators of innovativeness and performance is quite low. Moreover in 2014, also the occurrence of product and process technology innovations in the INV group was correlated with their performance. Such a correlation was not found in the

GRAD group. Thus the results concerning innovative activity of INVs, shown above, provide partial support for hypothesis 1.

Table 4

Differences in Types of Innovations Introduced by the INV and GRAD Groups (2014, One-Way ANOVA)

		Sum of squares	Df	Mean square	*F*	Significance
Innovations in product, process or production technology	Between groups	2.601	1	2.601	12.361	0.001
	Within groups	48.609	231	0.210		
	Total	51.210	232			
Innovations in distribution	Between groups	0.038	1	0.038	0.336	0.562
	Within groups	26.099	231	0.113		
	Total	26.137	232			
Innovations in forms of promotion	Between groups	3.167	1	3.167	13.533	0.000
	Within groups	54.052	231	0.234		
	Total	57.219	232			

Table 5

Correlation Between Innovativeness and Performance of the INVs (2013, 2014)

Innovativeness indicators***		Performance indicators			
		Sample of 2013		Sample of 2014	
		General performance	Financial performance	General performance	Financial performance
Please indicate if Your company introduces any product and technological process innovations (Yes/No)	Pearson correlation indicator (P)	-0.029	0.018	-0.008	0.206*
	statistical significance (p)	0.651	0.780	0.936	0.036
	N	249	253	105	104
On our main export market, with respect to our main product. we exceed the competitors with respect to the speed of new product launch	P	0.226**	0.169**	na	na
	p	0.000	0.008	na	na
	N	241	244	na	na
On our main export market, with respect to our main product we exceed the competitors with respect to product development and adaptation	P	0.162**	0.164**	0.033	0.074
	p	0.012	0.011	0.740	0.453
	N	240	243	105	104

Notes. * statistical significance at 0.05 level; ** statistical significance at 0.01 level (two-tailed); and *** only these indicators are included, for which significant correlation results were obtained.

Entrepreneurial Intensity of INVs on the Foreign Markets

The EI indicators, concerning the SME companies, were measured only in the study of 2014. In all studied SMEs, the international EI indicators were at low to medium levels (Table 6).

Indicator P.1 displayed the lowest level, meaning that on average in the 2014 sample, the companies used a “live and let live approach” towards competitors; moreover, the skewness level testifies that there were many companies with level of P.1 even below the mean. The EI indicators’ values differed significantly among company types only by the propensity to risk (P.2), the studied INVs had higher propensity to risk than GRADs (*t*-test of independent samples: $t = 2.259$, $p = 0.025$). Moreover, the propensity to risk was correlated moderately with the financial performance indicators, but only in the INV group (Pearson correlation $P = 0.331$,

p = 0.001 for the indicator of financial performance compared to competitors; P = 0.292, p = 0.004 for the indicator of general financial results). Thus, hypothesis 3 was supported only with respect to one dimension of EI.

Decision-Making Approach

In both 2013 and 2014, the studied companies were asked to evaluate their marketing planning activity by comparing it with that of their competitors. In 2013, only 18% of studied companies admitted that they were better at marketing planning than their competitors; in 2014, only 21% said so (42% of the studied companies did not comment on their marketing planning at all). Moreover, in 2014, the INVs were considerably weaker with respect to marketing planning, than the GRADs (*t*-test, Table 7).

Table 6

The Level of Entrepreneurial Orientation Indicators in the Studied Sample (2014)

Entrepreneurial orientation indicator *	Mean level (scale 1-5)	Std. deviation	Skewness	*N*
P.1	1.81	1.104	1.122	232
P.2	3.49	1.192	-0.728	230
P.3	3.87	0.763	-0.074	228
P.4	3.50	1.494	-0.447	226

Note. * indicators: P.1—dealing with competitors, P.2—propensity to risk, P.3—aggressiveness towards competitors, and P.4—foreign market research. Source: Own elaboration.

Table 7

Comparison of Marketing Planning Activity in Different Company Types (T-Test of Independent Samples)

	Company type	*N*	Mean	Std. dev.	Std. error of mean
Company has advantage in marketing planning compared to competitors (Scale “1”—“definitely not” to “5” —“definitely yes”)	GRAD	128	3.50	1.527	0.135
	INV	105	3.08	1.419	0.138

Variances	Levene’s test for the homogeneity of variances		*T*-test		
	F	Significance	*T*-value	Df	Significance (2-tailed)
Equal	3.688	0.056	2.176	231	0.031
Unequal			2.192	227.388	0.029

Considering the decision-making style, it is also important to refer to the managerial information-gathering indicator (see Table 6, indicator P.4). As it has been found, 56.2% of the studied companies admitted that they did not research the chances of success before entering the foreign markets. Moreover, no significant difference between INVs and GRADs was found, concerning this indicator, and its mean level on a 1-5 scale was 3.5 (see Table 6). Thus, the above results support hypothesis 4.

Discussion

According to the international entrepreneurship literature, innovativeness is a central element of the EM concept applied in the international environment. A study by Mort et al. (2012), comprising cases of nine BG firms, has shown that introducing customer-intimacy based innovative products is one of the key EM strategies.

These authors underlined that studying the EM concept within the INVs is appropriate and they have also identified three more strategies of EM, including opportunity creation, resource enhancement, and legitimacy. Another study, concerning four Finnish INVs, has shown that the core elements of EM strategies in these companies were: innovativeness (value innovation, co-created marketing, and low-cost marketing) and adaptation to local markets. Greater turbulence in the environment seemed to push for even more innovative marketing strategies of the INVs (Hallback & Gabrielsson, 2013). Furthermore, Read et al. (2009) who focused in their study on marketing decision making in entrepreneurial settings have shown that entrepreneurs are distinguished from inexperienced managers by flexibility in considering more alternative markets, even at the cost of product or strategy change.

The presented study has confirmed the above findings in relation to the Polish INV, i.e., they are innovative with respect to their products and flexible in entering new markets. However, the level of innovativeness of their promotional and distribution activity is low. Even the GRADs display significantly higher innovativeness regarding promotional activity than INVs. Perhaps the explanation is that the product concept is of special importance for the INV entrepreneurs included in this study and they do not have sufficient resources for promotional activity development. Moreover, the approach to promotion, typical of EM concept application, concentrates on direct contacts with customers (Gilmore, 2011), which are probably not treated as “innovative promotional tools”.

Furthermore, a study comprising 560 SMEs from the Turkish manufacturing industry (Hacioglu, Erenc, Sule Erenc, & Celikkand, 2012) has revealed that all dimensions of EM, including innovativeness, were positively related with the performance of these companies. Also Mort et al. (2012) have found that EM contributed to the achievement of superior market performance in the BG SMEs. Only a partial confirmation of the above findings has been found, because the correlation of innovativeness with the performance of Polish INVs was at a low level. However, some authors have suggested that the high marketing performance of an INV results from the fit between the degree of innovativeness of marketing strategies and the internal and external context in which these strategies are implemented (Hallback & Gabrielsson, 2013). Perhaps in some of the sample companies, the environmental factors did not stimulate high innovativeness of their products, which led to such study results. Therefore, the mediating factors, concerning the Polish INVs’ innovative activity influence on performance, require further analysis. Also, the indicators of innovativeness (number, type of innovations, and the speed of their launch) which has been used, may require changing.

The EO of rapidly internationalizing companies has been examined, among others, in studies by Mort et al. (2012), Kocak and Ambibola (2009), O’Cass and Weerawardena (2009), and Weerawardena (2003). It has been found that EO influences positively the performance of such companies and it has been suggested that “entrepreneurial effort” is a key driver of SME internationalization. In this study of the 2014 sample, the EI indicators were at a low to medium level. These findings may suggest that these EO elements are not as important for the Polish INVs as for the foreign-based ones. Perhaps the EO in the Polish INVs should be measured with an altered scale, putting more emphasis on proactiveness and attitude towards risk (Anderson, Kreiser, Kuratko, Hornsby, & Eshima, 2014). However, the considerably higher level of risk-taking activity of the INVs versus GRADs and its correlation with performance, shown in this study, may suggest that this factor of EO is of special importance for rapid internationalization.

As for the decision-making approach of the INVs, it was mentioned before, that the lack of marketing planning and information gathering is the characteristic of such companies (Luostarinen & Gabrielsson, 2006). Moreover, often these firms are not conscious of international knowledge and experience deficiencies at the outset of international activity, due to their managers' excessive optimism and overconfidence (Liesh, Welch, & Buckley, 2011). This lack of information or incorrect information about foreign markets may lead to "effectual approach" to decision making and cause implementation of emergent strategies. In this study, not only the INVs but also the GRAD companies had low competency regarding marketing planning and displayed low levels of information-gathering activities. Perhaps these results point to lack of experience and overconfidence of the managers. However, they are also in line with the effectuation approach described by Sarasvathy (2001), when in decision making, all that is known by the manager is the company's set of competitive advantage factors and personal skills/relations, which could lead to a potential success, when operating under a given set of circumstances in the international environment. Similarly, in an earlier, qualitative study of 10 Polish INVs, it was found that the so-called "sensemaking activities" of the founders were especially important for setting up the companies and for early stages of their development (Danik et al., 2016). In the majority of those cases, the sensemaking included mainly the clear vision of the founder regarding the potential success of his unique product/service, in connection with his previous experience or the understanding of current global trends. It may be supposed that a similar approach to marketing decision making was used by the Polish INVs described in this study. It is also compliant with the INVs' relatively high propensity to risk, which has been shown above.

Conclusions

The presented study is one of the first concerning the marketing activity of the INVs conducted in an emerging market setting. It indicates some characteristic elements of the EM concept, which are applied by the INVs from a Central-European market. The majority of internationalizing SMEs which have been studied applied some degree of EM practices, however, product innovativeness and propensity to risk seem to be characteristic especially for the rapidly internationalizing SMEs. Taking into account the research question posed in the introduction, it has been concluded that these elements differentiate the INVs from the gradual SME exporters.

The limitation of this study is that it was conducted as part of a project aimed at characterizing the early internationalization processes among the Polish INVs. Therefore, the results regarding elements of EM concept have an exploratory nature. However, they constitute an important indication for future research. The prospective studies should focus on other elements within the EM concept, employed by the Polish INVs, for example, similar as in research projects conducted abroad, it is worth studying the whole marketing-mix applied by the INVs (Martin, 2009). Moreover, to fully describe the decision-making processes in INVs, a further study is needed, concentrating on the managerial characteristics in the Polish INVs.

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Managing the Value of the Organization Based on Organizational Culture

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Managing the value of the organization is taking place based on factors forming it. It is becoming possible thanks to such managing operations of the organization, when in the end an image in accordance with expectations, giving the state back to the value of organizations is being got. Creating the goodwill is based among others on immaterial factors, which although they are becoming impossible to include in balance, are taken hold in time value of the organization. Creation of the value of an organization may be based on the organizational culture. The article presents the essence of value management and organization characterized the factors affecting the formation of organizational culture, ways of dealing with an organization aimed at consolidating and strengthening the organizational culture. Sometimes organizations feel the need to change the culture in order to achieve increased efficiency and ensure the success of the company to implement the necessary changes. Therefore, the rest of this article presents the elements to ensure a smooth implementation and consolidation of cultural change.

Keywords: managing the value of the organization, the organizational culture, managing

Introduction

Organizations operating on a brand new market must be able to respond quickly to changes and to develop new management systems in order to be successful. At present, people use management system that focuses on maximizing organization's value thus allowing to achieve an increase in its market value. Management using value as a key point requires replacement of previously existing organizational strategy and focusing on identification of factors that are the source of its value. Currently, it is believed that the value of organization is generated not only by tangible assets, but also by resources that are neither financial nor physical.

Modern organizations, in search of non-financial areas that will allow them to demonstrate their ability to generate value, more often tend to focus on building and developing organizational culture. The aim of this article is to present the impact of organizational culture on management of the value of an organization to increase efficiency of its functioning.

Definition of Company's Value (Goodwill)

In general, the term "value" is understood as the worth (in material aspect) of something that people want (Panfil, 2006). In business practice, it is often implied that the strength of organization is based on its value expressed in monetary units. However, not all resources in company's possession can be explicitly calculated.

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The reason for this is that hidden assets cannot be recognized in balance sheet and profit and loss account (Stefańczyk, 2009). Taking only financial ratios into account during calculation can be dangerous for the organization, because of a loss of opportunity to use and generate resources, which in turn leads to a failure in maintaining market advantage. In contrast, managing intangible asset is beneficial, because it protects the organization from threats arising from market environment, as well as threats occurring within the organization itself (Michalczuk, 2007). According to Bojar and Paździor (2013), the role of intangible assets is becoming increasingly important. These resources create the potential that improves innovations and consequently leads to an increased competitive advantage of the organization.

An intangible asset is also understood as a derivative of terms "knowledge" and "intellectual capital". According to G. Ross and J. Ross (1997), intellectual capital is "the sum of hidden assets of organization that is not included in financial statements, including both what is in the minds of employees and what remains after they left" (p. 38). In contrast, the model of intellectual capital by Low and Kalafut (2004) introduces the idea of economic activity in non-physical aspect and focuses on certain factors that have a significant influence on activity of the organization, provided that it is invested in and is being managed effectively. These factors include such components as: leadership, strategy, communication, brand, reputation, networks, alliances, technologies, processes, human capital, culture, workplace organization, innovation, intellectual capital, and flexibility (Low & Kalafut, 2004).

Attempts to find ratios of growth and efficiency in non-economic resources have brought attention to problems of organizational culture, due to its inherent values which are believed to be the source of success in organization's activity.

Defining Organizational Culture and Its Components

Organizational culture is considered to be the property of human teams that are willing and able to choose desirable behaviors that are further used within organization (Galata, 2007). It is the "personality" of the organization, which differentiates it from others. Its personality consists of assumptions and values, which have been prepared and adopted at the stage of solving problems related to adapting the organization to the environment, acquiring team's experience, and shaping internal integration. The scheme of thinking presently used in organization allows to understand organization's practice philosophy as well as learning valuable and desirable attitudes and behaviors (Olszewska, 2004). Concept of Stoner, Freeman, and Gilbert (2002) can be considered as the basis for analysis of the cultural system. They pointed out the existence of three levels of culture:

- artifacts;
- values and norms of behavior;
- main beliefs and assumptions.

Hatch (2002) defined artifacts as visible, tangible, and audible remnants of behavior rooted in cultural standards, values, and assumptions. Artifacts may take the form of:

- language artifacts (language, myths, and legends);
- behavioral artifacts (ceremonies, rituals, and customs);
- physical artifacts (art, technology, and material objects).

Values are principles, objectives, and standards accepted by society and they determine the hierarchy of importance. Values are used as a standard of moral evaluation and they often evoke emotions (Czermiński, 2001). Values determine what is important and appreciated in life, while standards explain what behaviors are considered as normal or abnormal. Values are closely related to social norms. These are the existing rules that indicate the members of culture which is expected in various situations (Sikorski, 2007). With implementation of standards of behavior in organization comes the occurrence of cultural gap. According to R. Kilmann a cultural gap is the difference between standards generally accepted in the organization and those which are considered to be useful.

Among the most common gaps that are in direct connection to standards are the followings (Januszek & Sikora, 2000):

- cooperation with other groups;
- innovation;
- intra group behavior;
- freedom and independence of the individual.

Assumptions and beliefs are components of culture's core of the organization. According to Galata (2007), assumptions are determining factors of perception of reality and way of thinking and living. They defined worldview and strengthened beliefs that allow settlement of important issues from the point of view of the organization.

Culture is a set of assumptions that are considered to be true. The truth is indisputable, which permeates every aspect of life in the culture and determines specificity of all kinds of experiences that are affected by it (Hatch, 2002). Cultural standards were categorized, according to fundamental problems of human existence (Czerska, 2003):

- attitude towards environment: It relates to the perception and understanding of the environment. It has a significant impact on decisions of selecting strategy of the organization;
- understanding of truth: It requires thinking about what elements are the foundation of organization's activity and which of the criteria holds true, if you have to choose tradition, authority, knowledge, and experience;
- the nature of man: It talks about features of human nature on which a picture of a worker operating in a certain organization is built. It answers questions: What is manifested through taking a responsibility, a good or a bad will? Is a man lazy or perfectly capable of displaying creativity? Can a man learn completely new abilities or is he to be judged by his present abilities?
- notions of human activity: This includes ideas about activity at work and taking initiative;
- interpersonal relationships: They relate to prevailing notions of relationships in the organization.

The Shape of Organizational Culture

Forming organizational culture on fundamental values is done with participation of founders of organization as well as employees.

Zbiegień-Maciąg (2005) has identified five stages of formulating organizational culture:

(1) Phase 1—Formulation of cultural assumptions: Primary source of organizational culture lies in people responsible for creating organization (Nogalski & Szpitter, 2012). The most important role in creating and maintaining a culture belongs to the founder, the owner, and their representatives (managers). They form generally accepted standards of behavior. These rules are functional and help to create benefits for employees and organizations. In this phase, culture is unstable and its success is determined by strong personality of

leaders. According to the principle of "example comes from the top", by observing the behavior of superiors, employees derive from their behavior patterns as soon as they start working with them, and thus co-create the culture of organization. Depending on the style of management, the culture is shaped to be open or closed. In this phase, people sometimes fight for power and prestige. A team is created and it is looking for its own identity and informal leaders.

(2) Phase 2—Development of culture: Teams are seeking for what unites them rather than divides. It is the period of formation of subcultures, identifying with the organization, and seeking a common ground.

(3) Phase 3—Duration of culture: It is a process of stabilization. Human behaviors are assessed.

(4) Phase 4—Maturity and complete stabilization of culture: Teams focus on strong internal control and maintaining the group. Employees manifest aversion to new ideas. In case of growing resistance to new ideas, a change in culture is required.

(5) Phase 5—Changing the culture: Members of the organization change its "personality". Culture is reconstructed and new traditions and patterns are created.

Functions of Organizational Culture

The process of developing of organizational culture in relation to implementation of two basic functions is considered:

- adaptation—related to the adaptation of group to environment;
- integration—related to reaching an agreement on topics related to internal activity of organization (Sikorski, 2006).

During adaptation phase, the culture has the following functions (Koźmiński & Piotrowski, 2005):

- helps to understand the mission and strategy of the organization and identify the primary objective of the organization by its participants;
- enables the integration of participants and provides a consensus on objectives which can be derived from the mission and strategy of the organization;
- allows an agreement on actions taken to achieve objectives of the company and increases involvement of participants;
- provides an agreement as to how one should act and what resources can be used;
- offers participants a uniform way to measure results. Thanks to that, individuals and groups are able to see whether objectives have been met and, if so, to what extent;
- allows improvement and modification of objectives, if such modification is necessary.

Thanks to culture, participants are able to develop strategies and ways to change and improve the organization.

The role of culture in internal integration of members comes down to following functions (Koźmiński & Piotrowski, 2005, p. 377):

(1) providing a common language and notions. Integration takes place when employees communicate with each other using a common language. Sometimes language barriers are the cause of people being seen as inferior or superior;

(2) defining boundaries of the group, establishment of selection criteria of employees, their inclusion in the group and exclusion from it. Effective functioning of the organization is determined by rational use of organizational culture to establish boundaries of individuals and groups within the organization;

(3) establishment of principles of power and status criteria. Understanding and perception of culture allows to avoid conflicts and aggressive behavior related to the level of one's authority. Culture dictates the preferred system of values for the organization. It shows ways of achieving, maintaining, and using one's authority. It also provides information to employees about rules of referring to subordinates—how to accept or criticize their ideas and decisions;

(4) fulfilling needs of safety and affiliation;

(5) establishing reward and punishment system.

Basing on this system, individuals and groups assess behaviors, attitudes, and decisions. Culture is a determinant of the common system of support and the knowledge of what is good and what is wrong.

Changing the Organizational Culture

Sometimes there are situations happening that result in dysfunction of some elements of organizational culture that prevent meeting requirements to maintain or improve organization's competitive edge. Thus, there is a need to rebuild organizational culture to increase effectiveness of organization. Among factors which impact elements of culture are the followings (Koźmiński, Jemielniak, & Latusek, 2009):

- Competitors' activity which forces radical cultural changes is a result of quality and consumer's satisfaction being a top priority;
- Technological changes are requiring greater flexibility and adjusting the offer to meet the needs of consumers. Consumer satisfaction leads to its recognition as a value;
- Change of legislative, although initially it causes a resistance among members of the organization, in the long run, leads to cultural change and creation of new standards and practice;
- The source of a cultural change may be groups operating in the same sector and using similar methods. For instance, companies in the industrial sector are basing on quality management systems that require the use of culturally sanctioned norms and standards;
- The source of cultural change is internationalization. Organizations have a natural tendency to imitate those who are successful on the market, for example, in industry Japanese solutions such as quality circles or zero inventory policy are quite popular; while traders use American methods such as sales, promotions, and discounter;
- Organizational culture is constantly changing, as a consequence of changes in the social structure in which the organization operates. Good examples of these are Japan and Germany, known for their high work ethic. What can be seen recently is an abandonment of old patterns caused by rejuvenation of the workforce, increased levels of wealth, and consumer lifestyle patterns.

The managers have the biggest impact on the effectiveness of changes in organizational culture. Because of their authority, they can contribute to the creation of norms and values that are useful during the implementation of necessary tasks. Thus it is possible to shape the desired behavior of members of the organization and create situations in which decisions taken by managers will find acceptance among employees (Bylok, 2003).

In the opinion of Crozier (1993), constant volatility of the market environment requires a different perspective on the role of employee. With this in mind, it is necessary to replace the one-dimensional worker with someone who has the ability to fully engage in affairs of the organization, to learn individually and collectively, and to evolve when learning.

Culture plays an important role in increasing tolerance of uncertainty and it is associated with transformation of existing patterns, and assimilation and acceptance of new ones (Romanowska & Jarosiński, 2005). Therefore, Crozier (1993) suggested that:

- Instead of standardization, a variety of activities that is reflected in creative approach to solving problems should be introduced;
- Instead of a sense of belonging, the need for a sense of harmony in interactions between representatives of different social groups should be indicated;
- The emancipation of the worker should be increased (through stabilizing his work situation by his knowledge, skills, and experience).

To carry out a change in organizational culture, it is necessary to organize efficient human resources function, involving the integration of its strategic objectives with the strategic objectives of the organization. Therefore, cultural change can be done in two ways (Stefańczyk, 2009):

- through cultural revolution. This is a radical change involving firing a large number of employees and replacing them with new ones, and liquidation of the remains of the old system and introduction of a new one. Due to the fact that consequences of adoption of this model can be difficult to predict, it is preferable to avoid revolutionary changes;
- through cultural evolution. It involves careful changes. The first step of this type of change is to diagnose the current state of organizational culture. The second is to define the desired state based on the organization's strategy. The next step is to compare the current situation with the desired one. Then to draw up a long-term plan of changes, one should take care not to lose what is valuable and change everything that needs to be changed.

Regardless of what strategy is chosen, it has to be done from scratch. Involvement of all employees in the process of changing organizational culture should be maximized. It affects shaping of desirable traits, such as:

- a sense of integration with the company;
- a sense of responsibility for tasks performed;
- strengthening emotional bonds among employees;
- creating a sense of belonging to a group.

Conclusions

In the modern world, competitive advantage of the organization depends (among others) on intangible resources, including organizational culture, which manifests specific characteristics of each company. Culture makes every organization different in certain aspects. This is possible, even if companies operate in the same business sector and have a similar organizational structure.

Organizational culture has a significant impact on performance of the organization and thus can be considered as a management technique and largely contribute to the increase of the market value of the company. In the organization, where there is a culture of a pro-efficiency, people feel an emotional attachment to their workplace and are willing to engage in implementation of objectives of various areas of its business. This proves existence of a positive work environment in which people seek to make changes in organizational culture, as soon as it starts impeding the process of proper adaptation to requirements of the market. Organizations that understand the impact of culture on their effective functioning perceive it as a major strategic tool used to maximize the value of intangible assets and strengthen their own market position.

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