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FACULTY OF BUSINESS AND ECONOMICS  
UNIVERSITY OF PANNONIA

# Pannon Management Review

EDITOR  
**ZOLTÁN VERES**

## Pannon Management Review

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ZOLTÁN VERES

**EDITORIAL:  
DIFFERENT MANAGEMENT STYLES ARE BEST  
SUITED TO DIFFERENT SITUATIONS**

Dear Reader,

Welcome to the 4<sup>th</sup> Issue of Pannon Management Review in the year of 2015, which is focussing on certain managerial dilemmas. Managers apply distinctly different management styles. Managers can also adopt different motivational strategies and techniques to boost employees' performance or accomplish internal change. The evergreen question however is unchanged: how to be successful in business.

This question can arise at any functional area in an organisation. There are many things which can contribute to the success of the business such as innovation, HR management, sales and marketing, production, finance, change management and leadership attitude both in positive and negative sense. This is the topic of the present Pannon Management Review. First, in their article Understanding innovation capability maturity in rural tourism, Csilla Raffai and Szabolcs Szikszai introduce a model that helps measure the innovation capability maturity of rural accommodation service providers in Veszprém county. Based on former research, they demonstrate that innovation capability maturity can of rural accommodation service providers in Veszprém county. Based on a former research it turned out that innovation capability maturity can be described by five capability areas: market knowledge, training, managing possibilities, guest orientation and rationality. The authors argue that the results are useful indicators of innovation capability maturity for all stakeholders in rural tourism. The analysis can also be used to identify those innovation capability areas where rural service providers need to make the necessary steps to improve their maturity.

The paper "*Gleaming eyes*", *the survey of workplace competence expectations towards career starters* written by Tünde Tóthné Téglás, Erika Hlédik and Laura Fónadová is focussing on a human resource management problem, namely on the workplace expectations towards career starters who participated in economic or technical higher education. The research goal was to understand the thinking of companies related to competences. The paper is mapping out the employers' selection practice. According to the researcher-authors two kinds of approaches are noticeable about companies participating in the survey regarding the recruitment, selection and employment practice of career starters. The majority of companies ensure the

acquisition of practical experiences with the performance of a simpler task, while in the other cases filtering happens at the time of entrance trying to select the more talented candidates. The transition from school to work gets „telescoped” which is advantageous for both the career starters and the enterprises.

Nevertheless companies in many ways apply different practices during the defining of selection criteria. There are companies where the role of personal impression is dominant, and there are others where the applicants have to go through a multistep selection procedure. There are cases where the employees’ competences are managed less consciously and there are others where they are more conscious. The most important expectations towards career starters are competences related to learning, independent work performance, problem solving, and team work and communication skills. In order to select from many applicants who have similar qualifications, during the recruitment of career starters the companies decide based upon personal skills, taking into account that successful work performance is not ensured by high level professional skills in itself anymore. Also in this field there is a quick development of technology which significantly reshape competence expectations ensuring success.

In the *Portraits of Companies* section our Readers can find a really inspiring interview with *Dr Attila Simon, CEO of Herend Porcelain Manufactory Ltd.* From his thoughts let me quote the followings on change management: “...there are so many people who consider change management to be something negative. They think the company is in trouble that is why change management is needed. I think a company always needs change management if its market position significantly differs from the optimal business environment. So the most important task of the management is to map the optimal business position in which the company can operate and its sustainable growth can be guaranteed. First we need to map the optimal strategic operation environment, which includes stable increasing market demand and a non-substitutable product with high selling price. So if there are no competitors and there is continuous demand for our product, we can reach a high sale price. Furthermore, the optimal business environment includes the decrease of work-related taxes, predictable long-term tax policy, the flexibility of employment regulations, supporting energy politics, strong competition of suppliers so we can push down supplier prices, low raw material prices, low inflation, cheap bank and financial resources, easily accessible government subsidies, increasing quality of vocational education, strong employee motivation, high creativity, loyalty and the ability of intensive innovation. If all this is present, the company operates in an optimal business environment, and the management could relax as everything is ideal. However, we constantly have to examine

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how our company differs from the previously mentioned optimal operation environment.” In sum, change management in our era of turbulence is not an exceptional problem solving but a continuous monitoring of the operational optimum. For me that is the most significant message of the interview.

And last in the *Young Researchers’ Section* we can study the complex relationship between leadership attitude, financial performance and business success. The research paper of the team of Milan Nikolić, Jelena Vukonjanski, László Szabó, Milena Nedeljković and Edit Terek on *Relationship between leadership and financial performances: transition conditions* explores that in Serbia – but in a broader context certainly in all Eastern European countries - transactional leadership is more frequently present than transformational leadership. Transformational and transactional leadership are polar opposites when it comes to the underlying theories of management and motivation. Transactional leadership styles are more concerned with maintaining the normal flow of operations, while a transformational leader goes beyond managing day-to-day operations and crafts strategies for taking his company, department or work team to the next level of performance and success. Both leadership styles are however needed for guiding an organization to success. As the title posits: different management styles are best suited to different situations. There are no universal responses to the questions in our corporate world.

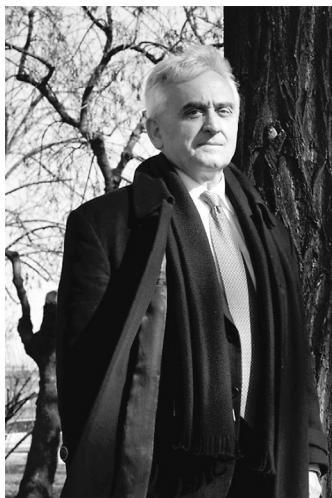
Well, Dear Reader, let us study and think over the messages of this issue. Hopefully, it will be an exciting journey.

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**Zoltán Veres**, Professor of Marketing, at the University of Pannonia, Veszprém, Hungary, Head of Department of Marketing. He was born in Hungary and he received his university degrees from the Technical University of Budapest (Masters degree in Electrical Engineering) and the Budapest University of Economic Sciences (Masters degree in International Business). He obtained his PhD in economics, at the Hungarian Academy of Sciences. More recently, he obtained his habilitation degree at University of Szeged, Faculty of Economics and Business Administration.

He worked as project manager of numerous international industrial projects in the Mediterranean region (e.g. Greece, Middle East, North Africa) between 1977 and '90. Since 1990, he actively participates in the higher education. Among others he taught at the College for Foreign Trades; at the Ecole Supérieure de Commerce d'Angers and between 2004 and 2009 he was Head of Institute of Business Studies at the University of Szeged. In 2011 he

was appointed professor of Marketing at the Budapest Business School (BBS), Hungary, and between 2010 and 2014 he was also Head of Research Centre at BBS. Since 2014 he is Head of Department of Marketing at the Faculty of Business & Economics of the University of Pannonia, Veszprém, Hungary. From the beginning of this year he is the editor of the Pannon Management Review.



Zoltán Veres has had consultancy practice and conducted numerous research projects on services marketing and project marketing. In 2001 and 2002 he was Head of Service Research Department at the multinational GfK Market Research Agency. He is a member of the research group of the European Network for Project Marketing and Systems Selling, Lyon; Advisory Board member of Academy of World Business, Marketing and Management Development, Perth (Australia); member of Comité Científico del Academia Europea de Dirección y Economía de la Empresa (Spain); Advisory Board member of the Nepalese Academy of Management; member of Board of Supervision at Association for Marketing Education and Research, Hungary; Advisory Board member of McMillan & Baneth Management Consulting Agency, Hungary and consultant of Consact Quality Management Ltd., Hungary.

He has more than 200 scientific publications, including the books of *Introduction to Market Research*, *Foundations of Services Marketing* and *Nonbusiness Marketing*. He has been editor of series to Academy Publishing House (Wolters Kluwer Group), Budapest. Besides Zoltán Veres has been editorial board member of the journals *Revista Internacional de Marketing Público y No Lucrativo* (Spain), *Вестник Красноярского государственного аграрного университета* (Krasnoyarsk, Russian Federation), *Tér-Gazdaság-Ember* and *Marketing & Menedzsment* (Hungary); member of *Journal of Global Strategic Management*, Advisory Board and Review Committee; member of *Asian Journal of Business Research*, Editorial Review Board.

CSILLA RAFFAI - SZabolcs SzikszaI

## UNDERSTANDING INNOVATION CAPABILITY MATURITY IN RURAL TOURISM

In this research paper we present the findings of a survey on the innovation capability maturity of rural accommodation service providers in one of Hungary's outstanding rural tourism destinations, the county of Veszprém in the Middle Transdanubian region. Using the results of a field survey among rural accommodators operating in the rural villages of Veszprém county we construct an innovation capability maturity index, which measures the average level of innovation capability maturity of rural accommodators in the individual villages.

Our paper draws on the conclusions of an earlier paper (Raffai, 2013), which proposed a refined version of the Innovation Capability Maturity Model version 2 by Essmann (2009) to identify the factors driving the innovation capability maturity of rural accommodation service providers. Raffai (2013) found that the innovation capability maturity of rural accommodation service providers in Veszprém county, Hungary, can be described by five capability areas: market knowledge, training, managing possibilities, guest orientation and rationality. In our present paper we measure innovation capability maturity in these five areas for the individual rural accommodators and aggregate the results to compute innovation capability maturity indices for the villages in the survey.

The resulting indices are useful indicators of innovation capability maturity for all stakeholders in rural tourism. The values of the index can be used to compare the innovation maturity of rural accommodation providers in different communities. We present an example of this when we analyse Veszprém county in Hungary. Besides an assessment of the present situation, such an analysis can also be used to identify those innovation capability areas where rural service providers need to make the necessary steps to improve their maturity.

**Key words:** innovation capability maturity index, rural tourism, accommodation service providers, Veszprém county, Hungary

### Introduction

Tourism plays an important role in the economy of all, however structurally diverse, OECD countries as it promotes economic growth and increases employment through travel and the trade of touristic services (OECD, 2000). The sector's central economic role

as well as the trend of economic globalization compel nation states to increase touristic competitiveness, primarily through innovation (Carvalho – Costa, 2011, p. 24).

This paper deals with innovation in rural accommodation services as part of rural tourism, an important subsector of tourism. Tourism in rural regions stands in sharp contrast with the five-star culture of tourism in metropolitan areas but its economic significance is equally unquestionable. Rural tourism, driven mainly by local players, plays a decisive role in job creation, investments and innovation in most rural areas. Rural tourism covers a range of services provided through the cooperation of many actors including accommodation providers, other service providers as well as local residents. These actors all contribute to creating the harmonious and complex experience, which encompasses all travel-related processes from the guests' choice of destination (e.g. pre-booking telephone inquiry, practical menu system of the hosts' website) to all the stimuli and impressions from the stay (e.g. hospitality of locals, opening hours of the souvenir shop, tidiness of streets and squares, choice of programs).

Rural accommodation is also more than just a room service. Most guests expect extra services and memorable experiences beyond staying in the country house. Satisfying the growing needs of customers, therefore, requires hosts and other regional service providers to cooperate, be open to change, be creative and innovative. Marketable accommodations with returning guests are open to the changing needs of their customers, are ready to cooperate with the right partners and innovate when necessary.

In this research paper we present the findings of a survey on the innovation capability maturity of rural accommodation service providers in one of Hungary's outstanding rural tourism destinations, the county of Veszprém in the Middle Transdanubian region. Using the results of a field survey among rural accommodators operating in the rural villages of Veszprém county we construct an innovation capability maturity index, which measures the average level of innovation capability maturity of rural accommodators in the individual villages.

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accommodators and aggregate the results to compute innovation capability maturity indices for the villages in the survey.

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## **Literature review**

### **Innovation in rural tourism**

Hjalager et al. (2008, p. 42) argue that the system of innovation can be analysed by examining its main components: the participants in the system, their actions and interactions as well as the driving forces behind innovation. In 2008, six authors from five different Scandinavian countries – Denmark, Finland, Iceland, Norway and Sweden – published a sector analysis based on case studies along with a research report with economic policy recommendations, in which they examined ten exceptionally successful tourism destinations as spectacular examples of innovation in tourism (Hjalager et al., 2008). The methodology of the case studies relied on the identification of the participants in the innovation system and their relationships, the mapping of the driving forces of innovation and the classification of the different innovation types.

The major driving force in the innovation process is the entrepreneurial spirit, characterized by the drive to initiate new investments and activities to keep the enterprise alive (Hjalager et al., 2008, p. 42). Another driving force is profit maximization. The classical profit motivation can be identified in most examined destinations but the reinvestment of profits in the broader local environment is also a reoccurring phenomenon (Hjalager et al., 2008, pp. 44-45). In certain cases, the initiatives and volunteering of locals is another important driving force. For example, the financial and organizational structure of the Roskilde Festival was built on the basis of a wide network of volunteer groups (Hjalager et al., 2008, p. 45). In some cases, innovation is driven by the participation of consumers. The owners of Opplev Oppdal, for instance, provide hiking or team building groups with

several new, customized services, but the idea of an Ice Hotel is also the brainchild of visitors. Volunteering music fans carry out the pre-stage screening of avant-garde music groups wishing to play at the Roskilde Festival, and customers handle the customer feedbacks in the Mountain Destination of Åre or the Whale Watching in Northeast Iceland (Hjalager et al., 2008, p. 47).

Rønningen (2010, p. 16) understands innovation as a complex process, similarly to Hjalager et al. (2008), and emphasizes that the pace of innovation is rather slow in the touristic sector, unlike in other services. He provides a comprehensive review of the literature on innovation in tourism and cites authors (Hjalager (2002) in Rønningen, 2010, p. 17; Fussing-Jensen et al. (2001) in Rønningen, 2010, p. 17) who point out that small enterprises do not always possess the knowledge base of innovation and are also unwilling to participate in cooperation structures, which inhibits the exchange of experiences as well as their knowledge sharing and innovation capabilities. Hjalager (in Rønningen, 2010, p. 16) explains this low level of innovation in tourism by the mutual lack of trust among touristic enterprises. Certain authors (Hjalager (2002) in Rønningen, 2010, p. 17; Fussing-Jensen et al. (2001) in Rønningen, 2010, p. 17; Pechlaner et al. (2005) in Rønningen, 2010, p. 17) suggest implementing a cooperation strategy to enhance innovation capability. They argue that cooperation provides for the flow of knowledge and enables involved parties to lower their transaction costs. Moreover, an empirical study by Pechlaner et al. (in Rønningen, 2010, p. 17) demonstrates that any cooperation that promotes knowledge and experience sharing expands the combined innovation capacity of businesses. Nevertheless, Sorrensen (in Rønningen, 2010, p. 17) opines that differences in the density and intensity of cooperation networks fail to explain the differences in the innovative behaviour of enterprises.

### Innovation capability determinants in rural tourism

The complex nature of innovation calls for an investigation of the components of innovation capability from multiple perspectives. The success in the competition of the 21st century lies in the exploitation of the potential of new ideas (Hamel, 2000; Maier et al., 2012). Kim (1997) defines innovation capability as the ability to create new and useful knowledge on the basis of existing knowledge. Burgelman et al. (2004) give another definition describing innovation capability as comprehensive organizational characteristics that support and promote innovation strategy. Atoche (2007) expands the former by defining innovation capability as a higher order “capability of integration”

that shapes and manages the different organizational capabilities and resources that encourage innovation activity.

In his analysis of rural tourism in Norway, Rønningen (2010, p. 18) emphasizes the following factors enhancing innovation:

- The innovation capability of small enterprises is smaller than that of large ones.
- Cooperation boosts innovation capability.
- Knowledge and competences are decisive.
- Government subsidies may improve the innovation capability of enterprises.
- Export orientation leads to product innovation.
- Market orientation and the involvement of employees may enhance innovation.

We illustrate in Table 1 the factors deemed most important in facilitating innovation by the various authors, together with academic references and capability areas considered crucial for innovativeness.

Fazekas (2007) considers knowledge as one of the most important factors of development. He argues that missing information on technological and market conditions as well as potential communication failures and the lack of skilled workforce can all hinder innovation activity. Service providers can acquire most of the necessary knowledge and information in trainings and vocational courses.

Several Hungarian and international studies emphasize the positive impact of cooperation on innovation (Inzelt – Szerb, 2003; Jancsik, 2007; Rønningen, 2010). The results obtained by Inzelt – Szerb (2013) show that the share of new products is significantly higher for enterprises cooperating in innovation than for their non-cooperating peers. The innovation capability of enterprises operating in isolation is also weaker than that of their cooperating peers. Good decisions on the forms of cooperation or the choice of cooperating partners call for the necessary skills to realize business opportunities, the ability to take calculated risks, and, according to Hjalager et al. (2008), entrepreneurial spirit and personal motivation. This is one of the main reasons why decision-making skills play a crucial role both in the strategic and in the operative processes of service providers. Furthermore, guest orientation is another important driver of innovation in tourism. As Decelle (2006) points out, the success of tourism service providers hinges on their ability to adjust their services to the demand and to quickly adapt to changes.

<b>Market knowledge</b>	Essmann, 2009	Rønningen, 2010	Chikán, 1998	Kaplan – Warren, 2010
	Ottenbacher et al., 2005	Brackenbury, 2006	Williams, 2010	Quadbeck- Seeger, 2007
	Hjalager et al., 2008	Jeffrey et al., 2009	Weiermair, 2008	Spielkamp – Rammer, 2006
<b>Training, competence</b>	Essmann, 2009	Kim, 1997	Cohen – Levin, 1989	Hjalager et al., 2008
	Francis, 2005	Ottenbacher et al., 2005	Atoche, 2007	Quadbeck- Seeger, 2007
	Rønningen, 2010	Carvalho, 2008	Csath, 2004	
<b>Cooperation</b>	Essmann, 2009	Keller, 2008	Bell – Pavitt, 1985	Hjalager et al., 2008
	Pechlaner – Bachinger, 2010	Ottenbacher et al., 2005	Scott et al., 2008	Porter, 1993
	Rønningen, 2010	Weiermair, 2008	Flagestad, 2001	Hall et al. (eds.), 2005
	Jancsik, 2007	Inzelt – Szerb, 2003		
<b>Decision making</b>	Essmann, 2009	Essmann – du Preez, 2010	Atoche, 2007	Bell – Pavitt, 1985
	Francis, 2005			
<b>Risk taking</b>	Decelle, 2006	Chikán, 1998	Zoltánné, 2002	Fazekas, 2007
	Pakucs – Papanek, 2006			
<b>Entrepreneurial spirit</b>	Schumpeter, 1934	Hjalager et al., 2008	Fazekas, 2007	Hall – Williams, 2008
	Fugslang – Sundbo, 2005	Zoltánné, 2002		
<b>Guest orientation</b>	Essmann, 2009	Hjalager et al., 2008	Ark et al., 2003	Szabó, 2012
	Weiermair – Fuchs, 1999	Sundbo – Darmer, 2008	Csizmadia, 2009	Decelle, 2006
	Csath, 2004			
<b>Rationality</b>	Essmann, 2009	Williams, 2010	Weiermair, 2008	Chikán, 1998
	Hjalager et al., 2008			

Table 1 Factors influencing innovation capability in rural tourism.

Source: Raffai (2013).

## An innovation capability maturity model for rural tourism

Scholars in both management (Williams, 2010; Essmann, 2009) and tourism sciences (Marchiori et al., 2012) have attempted to provide descriptions of innovation capability maturity. This section presents a model describing the innovation capability maturity of rural accommodation service providers.

We consider Essmann's Innovation Capability Maturity Model version 2 (ICMMv2) as the basic model to describe the innovation capability maturity of rural accommodation service providers. Essmann's ICMMv2 is an advanced innovation capability model, developed from ICMMv1, an earlier version. Essmann – du Preez (2009) argue that ICMMv2, unlike the earlier model, "defines the 'what' of innovation capability and not the 'how'. This is intended to be the 'essence of innovation' that ... is the same in every organization" (p. 408). It is obvious that a rural accommodation service provider is practically not an organization, but an individual or family. Operating such a business, however, requires the application of the structured business logic and attitude of an entrepreneur.

The model, published in Raffai (2013), is a simplified version of Essmann's more formalized and complex ICMMv2. ICMMv2 classifies capabilities into 42 construction units (criteria) in order to build a model that grasps the innovation capability maturity of any organization involved in any type of activity. The criteria in ICMMv2, however, cannot be fully adopted in our research because Essmann's model is more formalized and complex than what we need in the case of rural accommodation service providers. The model we use drops the criteria (e.g. treatment of intellectual property rights, suppliers' competence) which are only relevant to a formal organization. Furthermore, in the maturity model of rural tourism, we divide the criteria of cooperation (building formal and informal external connections) into three parts: cooperation with touristic and non-touristic service providers and availability to service providers). We use a total of five capability areas out of Essmann's set of criteria, which we describe in the next five paragraphs.

The capability area of "market knowledge" includes the criteria of understanding customer needs, knowing regulations and processing the news. In rural accommodation, awareness of the needs and expectations of guests is of key importance. It is also indispensable to keep track of regulations and consumer trends. We deem the criterion of processing the news to be important because only evaluated and processed pieces of news can adequately inform the process of planning, making changes in the supply of services and reacting to market changes.

The capability area of "training" involves the criteria of training strategy and training program. In the world of services, the importance of possessing up-to-date knowledge and

skills needs little explanation. Most rural accommodation providers, understandably, hold neither a touristic nor any other college degree. But their training is a vital necessity if they wish to follow the latest developments and apply new practices. To this end, they regularly participate in vocational programs such as trainings on accommodation, language courses, team buildings or hiking, where they can learn about and make use of best practices and applicable solutions. This is very profitable, because according to Keller (2008, p. 35), model imitation pays off in tourism because service providers can save the costs of experimentation and research.

The capability area of “managing possibilities” encompasses several criteria. Idea management and project applications can indicate openness to entrepreneurial spirit, change and making changes. Cooperation with and availability to touristic and non-touristic service providers, institutions of education and research also plays a crucial role within the driving forces of innovation. Cooperation is an efficient way of sharing information, resources and knowledge, in which all actors are interested in participating. Still within this capability area we have also included decision making, risk management and innovation communication. The ability to seek solutions to different problems, choose the right alternative and communicate the realized innovation are further aspects of innovation maturity.

We included the criteria of guests’ contribution to innovation and availability to guests in the capability area of “guest orientation”. Customer satisfaction and, in the long run, commercial success, hinges on the human factor and the personal dimension. Informality, being open and reacting flexibly to personal needs is essential in services, and even more so in the innovation maturity of rural service providers.

Our last capability area is “rationality”, which covers financial planning, measuring innovation performance, choosing the target group, and keeping guest records. Rationality leads to long term strategic thinking, consciousness, and continuous investment into the business, which promote renewal and are the manifestation of an entrepreneurial attitude.

Raffai (2013) applied the above indicators of the five capability areas in a survey among rural accommodation service providers in Veszprém county, Hungary. The preliminary categories of the indicators were also confirmed by conducting principal component analysis, using the results of the survey as input data. Raffai (2013) found that the innovation capability maturity of rural accommodation service providers in Veszprém county, Hungary, can be described by the above five capability areas. The five capability areas and the relating eighteen significant indicators describing these areas are summarized in Table 2.

Innovation capability areas	Indicators
Market knowledge	<ul style="list-style-type: none"> <li>• Understanding customer needs</li> <li>• Knowing industry regulations</li> <li>• Processing the news</li> </ul>
Training	<ul style="list-style-type: none"> <li>• Training strategy</li> <li>• Training program</li> </ul>
Managing possibilities	<ul style="list-style-type: none"> <li>• Idea management</li> <li>• Tender applications</li> <li>• Cooperation with touristic service providers</li> <li>• Cooperation with non-touristic service providers</li> <li>• Availability to touristic service providers</li> <li>• Decision making</li> <li>• Innovation communication</li> </ul>
Guest orientation	<ul style="list-style-type: none"> <li>• Guests' contribution to innovation</li> <li>• Availability to guests</li> </ul>
Rationality	<ul style="list-style-type: none"> <li>• Financial planning</li> <li>• Measuring innovation performance</li> <li>• Choosing the target group</li> <li>• Keeping guest records</li> </ul>

Table 2 Areas and indicators of the model of innovation capability maturity in rural tourism  
Source: Raffai (2013).

### Determining innovation capability maturity levels

Having identified the innovation capability areas, the innovation capability maturity index can be calculated. Essmann (2009) identifies five levels of innovation capability maturity, the description of which we adopt in our calculations of the innovation capability maturity of rural accommodation service providers. In our calculations these five levels of maturity are translated into an index with a value of 1 to 5.

On the bottom (first) level innovation is not yet present. The least innovation mature accommodation providers basically improvise in the process of providing their services.

Even if there exists a process of innovation service providers do not follow it and there are no regulations that insure that such processes are followed. Such accommodators react to changes rather than consciously initiate them. Their planning horizon is short and they deal with the problems as they emerge. Quality and performance cannot be measured in an objective fashion.

As we go up to higher levels of maturity conscious innovation is becoming an integral part of business processes. On the second level, service providers perceive the need for innovation, define innovation accurately and understand the different factors driving innovation. The innovation process is transparent but its outcome is yet inconsistent. On the third level, service providers support and manage innovation by appropriate practices, processes and tools and encourage their clientele to share innovative ideas. The outcome of innovation processes is foreseeable and insure sustainable market share and position. On the fourth level, innovation processes are integrated into service activities. The link between business expectations and the internal innovation model is clear and the innovation model operates reliably.

On the top (fifth) level, innovation becomes part of everyday routine. Innovation mature accommodation providers are capable of managing the entire service process and understand the significance of each internal process within the full process. Their decisions are for the long haul and they continuously expand the range of their services, and apply objective methodology to monitor the satisfaction of their guests.

## **Research design**

### **Data set**

Within Hungary's Middle Transdanubian region, our broad area of interest, the performance of rural touristic service providers in the county of Veszprém is outstanding, by far exceeding the performance of those operating in the other two counties (Fejér and Komárom-Esztergom). Based on this consideration, our research sample includes those rural accommodation service providers in Veszprém county which operate in villages with unquestionable rural touristic performance. We use 2009 figures of the villages from the dissemination database of the Central Statistical Office to define the cut-off values for entering our sample. These values are 600 registered guest nights and 200 accommodated guests, which, then, predetermine the range of accommodation service providers entering

the research sample. In Figures 3 and 4 in the Appendix, we illustrate on a map the geographical distribution of these villages in Veszprém county.

As can be seen in Table 6 in the appendix, a total of 82 rural accommodation service providers (out of the 253 total) in Veszprém county answered our survey questionnaire.

		Age (year)	Duration of service (year)	2011			2012
				Net profit spent on main- tenance and upgrade (%)	Revenue spent on communi- cation (%)	Number of guest nights	Room- price (high season, person/ night, HUF)
N	Valid	82	82	82	82	82	82
	Missing	0	0	0	0	0	0
	Mean	50.5	9.5	36.0	8.6	350.1	3420.7
	Median	50.5	9.5	30.0	10.0	270.0	3050.0
	Std. Deviation	10.9	5.5	29.2	7.0	336.6	1027.8
	Skewness	-0.1	0.7	0.5	1.3	2.0	2.6
	Std. Error of Skewness	0.2	0.2	0.2	0.2	0.2	0.2
	Kurtosis	-1.0	0.9	-1.0	2.1	6.3	10.3
	Std. Error of Kurtosis	0.5	0.5	0.5	0.5	0.5	0.5
	Range	42	28	100	30	2000	6800
	Minimum	28	0	0	0	0	2200
	Maximum	70	28	100	30	2000	9000

Table 3 Descriptive statistics of the sample

Source: own construct

Table 3 shows the descriptive statistics of the hosts and the places of accommodation. The average age of the hosts is 50, with a minimum age of 28 and a maximum of 70 years. They have been involved in rural tourism for an average of 9.5 years, with their experience ranging from 0 to 28 years. In 2011, the interviewed hosts spent an average of 36 per cent of their annual profit on the maintenance and upgrading of their facilities. They

spent 0-30 per cent of their annual sales revenue on communication and advertising. The number of guest nights in 2011 ranged between 0 and 2000 with an overall average of 350 guest nights. Guest rooms cost a minimum of 2200 Hungarian forints (7.5 euros) and a maximum of 9000 forints (30.5 euros) per night.

In our questionnaire, we asked hosts to answer a total of 19 questions that each pertain to one particular indicator. The questions are clustered together to indicate the five aforementioned capability areas they belong to. To each question, we asked the interviewee to choose that one of the three possible answers that he/she felt the most adequate for his/her services. When he/she could not choose between the three given answers, or if two subsequent answers were both partly true, we asked him/her to check one of the two alternatives in between the three answers. The answers to these questions become our indicators of innovation maturity, ranging on a likert scale between 1 and 5. Innovation maturity is then calculated as the arithmetic mean of the scores of these indicators within one particular capability area. Finally, total innovation capability maturity is calculated as the arithmetic mean of the innovation maturities in the five capability areas.

## **Results and discussion**

After calculating the innovation capability maturity index of each accommodation provider in the sample we averaged these values in each village. Table 4 shows the average values of the innovation capability maturity index for the surveyed villages in Veszprém county, Hungary.

The average value of innovation capability maturity indices for rural accommodation service providers in Veszprém county is 2.86 but the indices show great variance not only throughout Veszprém county but also within the individual villages. The average difference between the minimum and maximum index values within the individual villages is 1.36. For instance, in Felsőörs and Lovas, two villages in the southern part of the county close to lake Balaton, this difference is strikingly high. In these villages we saw significant deviation in the attitudes of rural service providers to innovation: while some are proactively and incessantly seeking possibilities of innovation, others have not made even the slightest change in the range and type of their services for the last twenty years.

Figure 1 displays the innovation capability maturity indices averaged by village and shown in table 4. This presentation also highlights the differences between the different villages covered in the survey. The numbers on the figure indicate outliers (e.g. 78 stands for the index value of a service provider in the village of Magyarpolány whose questionnaire was marked number 78).

Village	Number of observations	Standard deviation	Minimum	Maximum	Average
Nemesvámos	4	0.6825	2.83	4.44	3.62
Dudar	5	0.5435	3.11	4.44	3.60
Vászoly	3	0.3379	2.94	3.56	3.33
Ganna	4	0.4468	2.61	3.61	3.11
Lovas	7	0.7136	2.11	4.28	3.06
Csesznek	6	0.6428	2.22	3.83	2.96
Bakonybél	13	0.7680	1.50	4.00	2.91
Magyarpolány	8	0.6482	2.28	4.22	2.83
Felsőörs	6	1.3294	1.39	4.44	2.68
Eplény	5	0.5046	1.78	3.00	2.67
Bakonyszentkirály	2	0.8250	2.06	3.22	2.64
Nemesvita	4	0.4612	1.94	2.94	2.57
Öskü	4	0.2581	2.22	2.83	2.57
Pécsely	2	0.4321	2.17	2.78	2.47
Szentbékkálla	3	0.3889	2.06	2.78	2.33
Németbánya	3	0.3572	2.00	2.67	2.26
Mindszentkálla	3	0.7398	1.56	2.89	2.04
Total	82	0.7300	1.39	4.44	2.86

*Table 4* Innovation capability maturity indices of rural accommodation providers in Veszprém county (averaged by village)

Sources: own construct

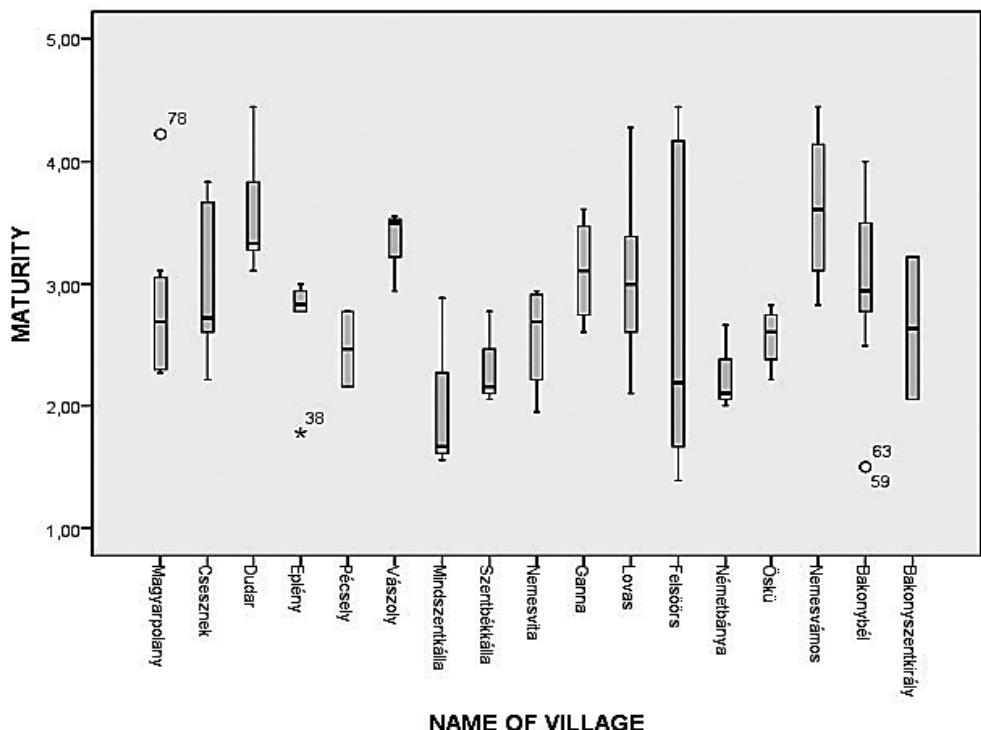


Figure 1 Boxplot diagram

Source: own construct

The innovation maturity of a given rural accommodation service provider can also be plotted on a radar chart, which we call innovation maturity profile. This profile shows in one diagram the innovation capability maturity of a given service provider in the five innovation capability areas. Figure 2 shows the innovation maturity profile of one random rural accommodation service provider, based on the values displayed in Table 5.

Market knowledge	Training	Possibilities	Client-orientation	Rationality	Maturity index
3.67	2	3.33	3	3.5	3.1

Table 5 The maturity of the innovation capability areas of a random rural accommodation service provider

Source: own construct.

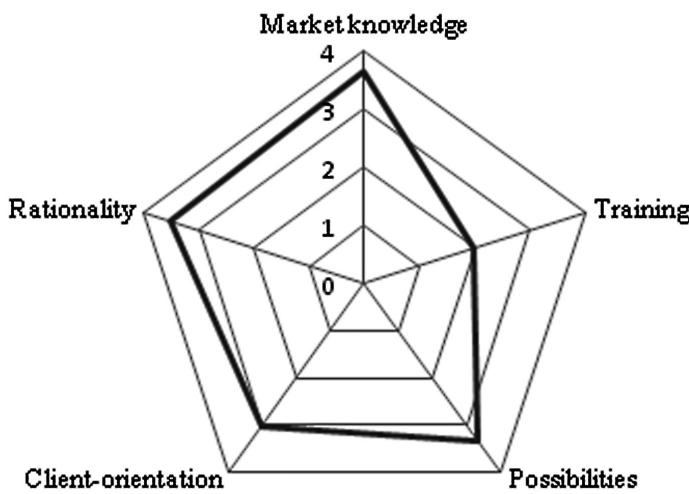


Figure 2 The innovation capability maturity profile of a random accommodation provider in Veszprém county

Source: own construct

## Conclusions

The purpose of our research is not exclusively to expand the theoretical framework of rural tourism but also to construct a method that can be applied with ease. The proposed innovation capability maturity model coupled with the innovation capability maturity index enable rural accommodators as well as other stakeholders in rural tourism to measure and compare innovation capability maturity of different accommodation service providers. The measured levels of maturity in the different capability areas point beyond an assessment of the present situation and help service providers map their innovation capability areas, spot their weaknesses and create a development strategy to correct shortcomings. Such a strategy should focus service providers' efforts on developing the particular components of the services found to be less developed in any of the capability areas (e.g. getting to know clients' needs better, communicating realized innovation, submit more tenders bids). Based on these corrections, accommodators can lay out the future path of development.

It is noteworthy that our experiences with the interviewees reinforce our research findings. In our research sample, accommodation providers with a high value of the

innovation capability maturity index entirely identify themselves with the provided services and activities. Apart from accommodation, most of them offer other programs and experiences (cheese making, cooking, courses, etc.). Although our research ignores the aspect of satisfaction and happiness the research experiences also fully support the argument in Michalkó (2012), according to which, „being involved in rural accommodation services unquestionably improves the subjectively perceived quality of life” (p. 117) and the arrival of new guests is a source of positive state of mind and good mood.

Although the results of our research do not offer a recipe for successful innovation, they carry well discernible messages for rural accommodation service providers. On the basis of the best practices of accommodation service providers with a high maturity index value, we have three pieces of advice to entrepreneurs in the rural accommodation business. First, rural accommodation providers should look for ways to cooperate with other touristic and non-touristic service providers. Joining a local or regional destination management organization (DMO) or, cluster, could enhance their innovation capability maturity. Such cooperation contributes to the success of participants through different channels, including professional lobbying, information service on new funding opportunities, assistance in compiling tender applications, joint media coverage and professional training programs.

Second, in order to better meet customer demand, accommodation providers should clearly identify their target group (e.g. groups of students, couples with children, seniors, etc.). Satisfying the needs of a well-defined target group is always easier than satisfying the, sometimes opposite, needs of all possible types of customers that might look for rural accommodation. Hungarian service providers are especially advised to be more conscious in targeting a specific segment of customers and streamline their services in line with their needs.

Third, long term success requires constant adaptation to the changing environment. Besides the aforementioned continual search for new information and lifelong training, this approach also includes identifying new customer needs, following the latest market trends and repeatedly measure the satisfaction of customers. The information in the feedbacks can be used to improve the accommodation service, expand the range of accompanying services and, thus, increase the number of returning guests.

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Appendix

Sub regions	Village	Hosts in the sample	Total hosts	Coverage (sample/ total)	Local tourism tax revenue (HUF 1000)	Number of bedplaces	Number of guest nights	Number of guests	Average frequency*
Aikai	Magyarpolány	8	10%	17	7%	47%	641	5%	102
Balatonalmádi	Felsőörs	6	7%	33	13%	18%	516	4%	356
Balatonalmádi	Lovás	7	9%	35	14%	20%	2619	21%	211
Balatonfüredi	Óbudavár	0	0%	6	2%	0%	0	0%	57
Balatonfüredi	Pécsely	2	2%	18	7%	11%	122	1%	97
Balatonfüredi	Vászoly	3	4%	8	3%	38%	342	3%	81
Rápai	Ganna	4	5%	7	3%	57%	381	3%	42
Rápai	Németbánya	3	4%	3	1%	100%	129	1%	19
Tapolcai	Mindszentkálla	3	4%	6	2%	50%	737	6%	34
Tapolcai	Nemesvita	4	5%	13	5%	31%	165	1%	81
Tapolcai	Szentbékálla	3	4%	16	6%	19%	912	7%	92
Várpalotai	Óskü	4	5%	10	4%	40%	0	0%	52
Veszprémi	Hárskút	0	0%	2	1%	0%	211	2%	19
Veszprémi	Nemesvámos	4	5%	3	1%	133%	0	0%	16
Zirci	Bakonybél	13	16%	35	14%	37%	3943	31%	250
Zirci	Bakonyranna	0	0%	11	4%	0%	782	6%	73
Zirci	Bakonyzentkirály	2	2%	5	2%	40%	0	0%	35
Zirci	Csesznek	6	7%	9	4%	67%	301	2%	66
Zirci	Dudar	5	6%	6	2%	83%	0	0%	31
Zirci	Épíény	5	6%	4	2%	125%	96	1%	44
Zirci	Jásd	0	0%	6	2%	0%	717	6%	52
Total:		82	100%	253	100%	32%	12614	100%	1810
							36827	100%	10508

Table 6 Selected data from 2009 on villages of Veszprém county in the sample

Source: own construct

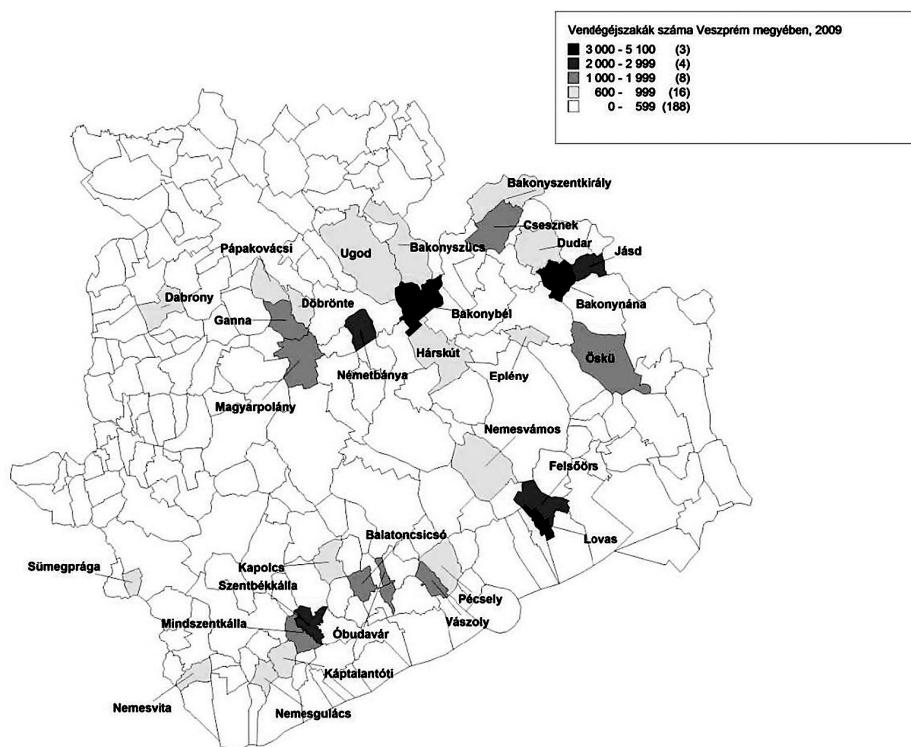


Figure 3 Number of guest nights spent in the villages of Veszprém county  
Source: own construct

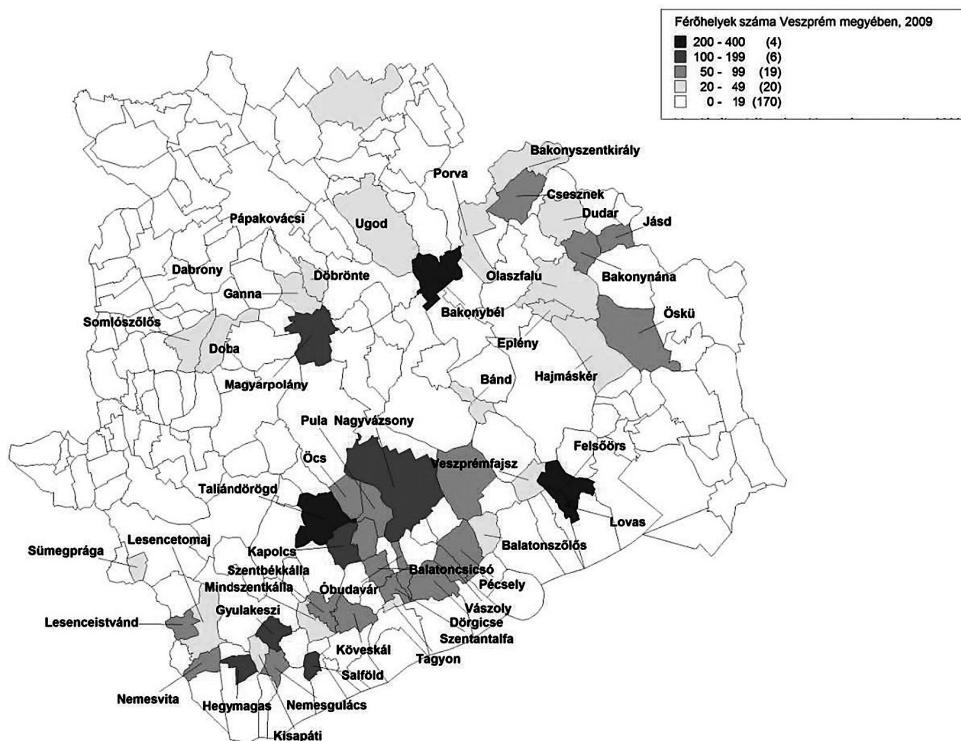


Figure 4 Number of bed-places in the villages of Veszprém county

Source: own construct



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TÜNDE TÓTHNÉ TÉGLÁS, ERIKA HLÉDIK, LAURA FÓNADOVÁ

## “GLEAMING EYES”, THE SURVEY OF WORKPLACE COMPETENCE EXPECTATIONS TOWARDS CAREER STARTERS

Changes which can be experienced in economic life also form the selection and training practice of companies and may reorganize their expectations towards the employees. During our surveys we are dealing with the examination of workplace expectations towards career starters who participated in economic or technical higher education. We attempted to understand Hungarian companies' practice and thinking related to competences.

Surveys examining the career starters' integration at work mostly investigate the expectations of companies in one single moment along given competences. These studies do not pay attention to that in the relation system of demand and supply, competences may continually change and that companies may perform different kinds of selection and training practices. In our study, we expand the survey of workplace integration happening during the transition from higher education to worklife with the introduction of qualitative research results performed in new, entrepreneurial settings. The objective of our present research is to identify expectations towards career starters who have economic and technical higher education qualifications and to map out the employers' selection practice.

**Keywords:** selection practice, workplace expectations, competence, learning, career starters.

### **Skill mismatch in the workforce market**

Learning about workforce-market requirements became an interesting research field due to the contradictory situation which can be sensed in the workforce markets. Despite the high unemployment figures, a number of international research results prove the skill shortage appearing in the workforce market. (Szabó, 2011, Lazányi, 2012) In the survey conducted by Manpower (2013) among corporate representatives, 35 per cent of the companies reported skill shortage. The main factors during the finding of proper workforce were the lack of experience, hard and soft skills and the lack of industry specific qualification. European Centre for the Development of Vocational Training (CEDEFOP, 2015) in 2014 conducted research among employees aged 24 to 65 across all 28 Member States about skill mismatch. The research points

out that out of the ten companies four have reported difficulty to find colleagues who have the proper skills. On the basis of the international workforce-market figures, the proportion of people having a higher education degree is constantly increasing in employment. The spread of higher-level demands is expected to continue in the future, too, from the 44.1 per cent level of higher education workforce demand, the proportion of qualified job positions will increase to 90 per cent until 2025 according to a prediction (CEDEFOP, 2015), and this tendency can be observed in the Hungarian workforce markets as well. (Tóth et. al., 2015) The appearance of wage differences between employees with better and less good skills also draw attention to the demand toward a workforce having higher skill intensity has appeared in the economy. The unequal waging originates from that the supply side is not able to keep the pace with the needs of the demand side. The technological change generates contrast between the supply and demand towards competences. (García – Velden, 2008) According to the Hungarian graduate survey conducted in 2010 the employers perceive significant deficiencies with regard to several competences among career starters. (Kiss, 2010)

The skill mismatch observed in the work market was mainly caused by changes in employers' expectations (demand side). „The companies in the age of information are in the state of continuous restructuring, reengineering, their strategy and organizing are equally flexible.” (Szabó – Hámori, 2006, p. 361.) These tendencies „reorganize” the contents and formal frames of work in worklife as well, and require a much higher level of flexibility from employers than earlier. „While the traditional organizations considered caring about employees a basic value, today's workplaces rather expect a kind of a responsible, self-caring attitude from their workers, they thrive to realize that their workers would identify themselves with organizational values and objectives.” (Kiss – Répátzky, 2012, p. 16.) In the more flexible relationships of work, the emphasis is put on the completion of the task (Szabó – Hámori, 2006.), which significantly „influences the values and contents of necessary competences” (García – Velden, 2008, p. 49.).

The changes in the workforce-market reform the attitude how companies evaluate the importance of trainings organized within the company or knowledge „purchased” from outside. In the economic approach, the employer only supports the acquisition of „special” knowledge, applicable in a specific company, and the responsibility of gaining „general” knowledge is passed on to the individual. The management literature however, highlights that the companies use internal training as a tool to adapt to changing market relations, to eliminate present and future competence deficiencies. (Polónyi, 2004). The human resource-management practice may also re-evaluate the line between „general” and „special” trainings, along with the selection and training strategy of companies. Prahalad and Hamel (1990)

stress the critical importance of the selection of core corporate competencies essential to the company. In addition Srivastava (2005) points out that required individual contributions, defining of personal competencies can be interpreted as one of the key elements to future success. However, to complete this task is not simple for the companies. The companies „answer” these questions in a very different way; therefore in the workforce market business strategies are not clearly outlined related to the expectations towards employees.

There are different views among researchers how these tendencies transforming the expectations of employers, which skills’ role would increase or decrease and what would be the role of learning. A number of economists expect the increase of demand toward people with higher qualifications due to technology, and this is proved by the above research results as well. Other researchers however, predict the polarisation of the workforce market, where in some workforce situations the expectations will expand, while in others they will decline (Hilton, 2008). Allen and Velden (2012) found that according to European graduate surveys three types of tendencies can be identified. First there are competences, like general basic skills, whose role will not change even after this. Second, there are newly appearing competences, like skills helping the orientation among 21st century technological innovations. Third there are competencies in the intensifying division of labor, which are reorganized and due to this more and more special competence expectations appear (Allen – Velden, 2012). Nevertheless, opinions vary regarding the role of education and learning, and within the relationship of competences and knowledge in the question formulated from the aspect of education (Benade, 2014).

Thus, the expectations raised towards the colleagues in the organizations do not appear as a static variable, but as serving their strategic targets continually changing within the relation system of demand and supply. Companies have to decide about what kind of personal competences they will need during the adaptation to market changes and about if they perform the training within the organization or they arrange it through the workforce-market. So on one hand they can choose a different selection and training practice, on the other hand they can also reinterpret their expectations towards their employees depending on their experiences related to their employees and the workforce-market supply. At the same time, employees may also choose differing career starting and learning strategies depending on what kind of expectations do they perceive from the part of employers, and if during their studies or as a result of other activities what kind of knowledge, skills, attitude do they possess (Sági, 2011). According to this, the absence of skills appearing in the workforce-market and the transformation of employer expectations lying in the background can be studied efficiently based on the understanding of the participants’ behaviour. The numbers of

graduated survey studies performed by higher education institutions primarily examine the deficiencies and search the reasons from the part of the employees. In this survey conducted in the Hungarian context we focus on the practice of selecting career starters and also concentrate on the employers' thinking. In our study, related to the transition from higher education to worklife, we dealt with the issue of workplace integration in enterprise setting by the methods of qualitative approach.

### **Research history**

In our earlier prepared questionnaire OE 2012 survey (Tóthnél-Hlédik, 2014); we primarily studied the expectations of large enterprises operating in Hungary toward career starters who have technical and economic qualifications. Our sample (N=88) was comprised companies actively searching for career starters, assuming that these companies have conscious expectations regarding them. We compared our results with the figures of two earlier secondary studies, we applied the outcome of Institute for Economic and Enterprise Research of the Hungarian Chamber of Commerce and Industry (GVI) 2011 (Várhalmi, 2012) study examining the expectations of the employer side and the results of the Hungarian Graduate Survey (DPR) 2010 (Kiss, 2011) research exploring the perceived competence expectations of graduated students.

In the practice related to the surveyed companies' selection of career starters, less than half of the companies were established on competence based thinking, but besides the manager interview, tools observing different kinds of competences were also frequently applied. According to priority order stated in the preferences defined by the companies, competences serving the present performance proved to be the most important, which refers to that from career starters independent and efficient work performance is expected from „the first minute of the work”. The results received in our research, differing from the preferences of the GVI 2011 survey, appeared along the competences classified into the second quartile. In the GVI mixed composition entrepreneurial sample, professional competences were not involved into this quartile, in our sample based mostly on large companies, competences helping innovation proved to be more important and language skills also received higher assessment. Competences related to professional preparedness in our research got high marks as well, but were classified into the less important category. According to this, in complex jobs requiring higher level of qualification, successful work performance is not ensured by high level of professional knowledge in itself anymore. Without personal and social competences professional tasks cannot be completed successfully. Competences classified into the least

important group, primarily relate to the accomplishment of tasks connected with managerial work.

In the study of differences between expectations towards graduates with technical and economic qualifications, the comparison of group averages derived from the factors showed an interesting result. The competences of leadership skills proved to be more important in the economic area, while professional preparedness competence group in the technical field during the evaluation of companies. The difference in the results may refer to that in case of various professions the general competence expectations takes a different form.

In our study, on the basis of the employers' answers by examining the correlations of competences, it can be stated that in the thinking of company representatives, on the basis of the DPR 2010 research data, the arrangement of expectations differs greatly from the graduated students' opinion. As the result analysis prepared from the data of OE 2012 study, the 30 competences were arranged to seven factors. The cooperation competence experienced in the DPR research in our survey was „divided” into two factors by the participants. Furthermore, it is interesting that the learning skills in the DPR research got to the professionalism factor, while in our survey they gained a wider interpretation and were classified into the openness factor.

The explored differences give an insight into the diverse thinking schemes of respondents, referring to what participants may think in a very different way with certain categories of competences.

If we are to summarize our results of the surveys mapping out employers' expectations, on one hand similar results considering certain expectations show clearly emerging tendencies, but regarding several vital competences, we also found very differing results. Different kinds of workplace preferences appeared in various groups of companies, and in certain professional fields. Factor analysis however, showed that the differences which can be observed may also root from the different interpretations.

In our present study, in the relation of two professional fields, we set the target of examining the differing management decisions, selection practice and experiences of company competences, in order to interpret the expectations towards career starters in this light. In our later study, we continue the investigation of corporate thinking with the interpretation of competence expectations. As the result of the two surveys, to understand how certain competences are organized in the participants' judgment can be an important starting point for further research studies.

The objective of our present research is to identify workplace expectations toward career starters who have economic and technical higher education qualification, and to map out the selection practice of employers.

## **Sample and Methodology**

In this research, we observed workplace expectations with the help of competence definition and inventory used in the management professional literature (Shippmann et al., 2000). The objective of competence based thinking in organizations is the identification of personal success criteria (McClelland, 1973). The competence based thinking divides the definition of success criteria into two levels, to basic expectations and success criteria. The condition of staying in competition in Porter's definition is that the organization should be able to perform better than the competitors while other activities are also executed on an appropriate level, too (Kottler, 2012). Boyatzis (1982) during the survey of individual expectations also distinguishes threshold and discriminatory competences. At the same time, the validity of competences may alter with the change of business environment. There can be factors which have played an important role in the life of the organization in the past, but thanks to a strategic switch, will be less important in the future, or just the opposite. There are competences which become important especially during the changes, and there are competences, which are durable, their roles are dominant right now and also in the future. (Sparow – Bognano, 1995)

Workplace competence expectations are formed within the dynamically changing relationship of employers and employees (Kiss, 2011). According to this, we examined employee expectations formulated by employers so as to understand companies' thinking related to it. On one hand, we examined within the companies' practice how decisions are made about defining selection criteria on new colleagues' selection. On the other hand, we measured what kind of experience they have regarding the applicants who apply to their job advertisements and concerning their newly hired co-workers.

In the light of this, in the survey, we explored the workplace expectations set of career starters, and also companies' thinking regarding the formation of requirements from several aspects.

1. Why and in which cases do they decide in favour of hiring a career starter?
2. How do they form selection criteria? What kind of selection practice do they perform? How do they decide about the enrolment?
3. Do they consider short or long term suitability more important? Which are more significant: soft or hard skills during the selection procedure?

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4. What kind of expectations do they set for career starters during selection? Which are the important and less important competences?
5. What kind of experiences do they perceive in connection with the preparedness of the career starters?
6. Do different expectations defined towards students originate from different (economic and technical) professional fields?

Our survey has an explorative nature, according to this we discovered the opinion of our interviewees in the frame of an in depth interviews. During the composition of the in depth interview guide, we applied open, repetitive questions, projective techniques (mapping, association) and BEI which is frequently used in competence studies, the behavior interview technique (Karoliny et al., 2003, Szelestey, 2008). We performed the in depth interviews in the fall of 2014. Major part of the interviews was executed by students participating in master's program.

Our interview subjects were HR professionals or high-level managers performing their selection tasks for at least three years. During the sample collection we sought to involve the representatives of organizations with different sizes and owner structures into the survey. We only performed interviews with companies which employ career starters with economic and/ or technical higher education qualifications, too, and have several years of experience in the selection and employment of career starters.

The average length of the interviews was 60 minutes. We performed the analysis of the transcription prepared from the 24 in depth interviews with the help of NVIVO, and composed the content analysis with two researchers in order to avoid subjectivity.

### **The selection practice of companies during the employment of career starters**

#### **Employing Career Starters**

The employment of career starters was considered an advantage by the companies participating in the survey, primarily because of the young people's flexibility, good adapting skills, enthusiasm and openness. „*They want to show what they are made of*”, „*they are very enthusiastic*” and „*their knowledge can be still bent more easily*”, said the interview subjects. Several people mentioned the innovative ideas, suggestions noticed by the beginner's eyes, things that are imported into the company's life by young people with fresh knowledge. „*A new perspective, innovative thinking, they question things, they are brave enough to question*

*things*", moreover „*they challenge the other people as well, their presence brings competitive spirit to the surface, for example: Well, s/he learned this as well?*”, adds the representative of a given pharmaceutical company. There were also respondents who highlighted cost efficiency, too.

On the basis of the survey's results, career starting young people are offered three kinds of possibilities by the companies. Young students are already being employed in *underqualified* positions or into an intern program during their studies by the companies, and later they can step forward into higher positions within the company. The third possibility is offered by the companies seeking to find new talents, search for young people into their replacement-education program. At the same time, companies frequently seek more experienced employees into the empty positions; they cannot hire a career starter.

In companies where undergraduate students are hired into so called „*understudy*” positions, young employees usually have to perform simpler administrative tasks or they get into an assistant job position. Many school-leaver students are recruited into call centres and customer service work fields as well. Subsequently young people with good performance are ensured possible ways forward.

From the surveyed companies, many people reported that they hire career starters through internship programs, bridging the practical deficiencies of career starters. At the multinational company participating in the survey and at the companies working in the technical field, career starters or undergraduate students can become the member of the team in several professional fields, where with time by completing more and more difficult tasks they would become experts in the long term. „*We observe that proportions would be acceptable, but in the majority of cases they need to be replaced from lower levels, from below if possible. Then the employee would socialize here, they would be brought up here, they would be familiar with the systems. So from below.*” (the manager of engineering office)

There were employers who advertised positions for career starters with the aim of replacement-education. In larger companies performing such practice, it is an „*established*” drill that from year to year when looking for more talented young people they advertise so-called trainee positions with limited access and they consciously shape their training. „*We always had the idea that a company with one thousand and two hundred employees is large enough, and it is more important that an employee should be talented, and during one year the candidates would find their places. Our experience was that, ..., trainees were loved so much that it was difficult to keep them in the rotation, ... they were encouraged to stay in the department as well.*” (HR manager of a large company) The representatives of smaller organizations perform a more flexible practice; in case of a more talented applicant they may

even redesign the position. The representative of a company distributing IT products told the following, „*everybody does as much from the scope of work, as much as he or she envisions.*”

Hiring career starters in case of empty positions occurs relatively rarely. „*Our industry demands from us to be ahead of our rivals at all times and to have a really serious expertise and preparedness*” emphasizes the representative of a multinational company. In strong competition, thanks to tight staff management, companies frequently seek „*people who can get into the fight as soon as possible*” since „*area performance must be accomplished immediately and quickly and an area cannot remain uncultivated for too long*” said the interviewees.

## Defining Selection Requirements

In defining the requirements set for career starters, the surveyed companies reported about four kinds of practices. In many cases professional managers compose the primarily „*position dependent*” expectations. There are places where the HR department „adds” the requirements ensuring company integration, and there are places where they also use a competence catalogue during the identical interpretation. Among the companies participating in the survey, there were two such which, thanks to the communication performed within the company, reported unified company competence expectations which were applied not only during the selection, but in development as well.

The requirements related to the advertised position are in many cases defined by the „*business area*”, the definition of requirements is exclusively built on their experiences: „... *the regional managers after several years of experience already have the set of competences, which they expect and that they have seen the development of many trainees, career starters.*” In those companies where the work of the company is based on the projects, requirements are defined on the basis of current tasks, „*there is a project, these are necessary for it, and these competences are needed.*”

Among the HR experts dealing with selection, there were individuals who reported that they help professional managers in this work, „*that in fact these expected skills would be present not only from technical, but from soft skill side as well*”. In these organizations the HR expert adds those general employee expectations which are necessary for the integration within the company.

A part of the surveyed companies is conscious about the selection decisions, by well preparing the decision they specify such clarified requirements in job advertisements which are considered to be truly important by the organization, „*we do not waste our time, since we have less and less resources*”. A more thoughtful decision can be observed in case of two

companies, since during the formation of requirements a competence matrix is prepared, or also that a competence catalogue composed by the company is accessible in order to describe the expectations in a unified way.

Among the participants there were also such companies which formed unified business competences expectations. „*Not only that these are catchy slogans, but our company puts a real emphasis on the existence, development of the behaviours or competences. In case of our own employees as well, and when we are searching for a new colleague.*” (an HR expert of one of the companies). Another person told that they „*chose the defined competences together with the managers*”, on which they agree on the different forums of the company from year to year, clarifying their content and role in the life of the organization.

Regarding the thinking about competence concepts there were people, who defined their expectations very naturally in case of the subjective factors as well, and there were people who reported the difficulty of defining the selection criteria, „*There are skills, which are very hard to put into words that we expect a kind of humility, which is difficult to describe.*” An interviewee told the following about competences „*some of them are a bit clichéd for me*” and in fact it is not „surprising” that communication is important in worklife. The defined competence expectations may sound „clichéd” for the candidates, but they are a very important condition for the companies: „*it's good to feel about a person that he or she would like to be the part of the team*”, highlights a representative of one of the companies. An HR expert puts it that way: „*these are fundamental things, but they can cause terrible problems if they are not OK*”. The expectations frequently appearing in advertisements may many times sound so clear and corny that mentioning them might sound awkward even from the part of the company: „*I could say very sublime, great words that we are looking for ambitious colleagues who are able to work independently and are open to learn new things. In case of career starters this is very important and I can also confirm this.*” This problem is practically „resolved” by the internship program, where both parties are able to experience which expectations are the most important for them: „*A certain amount of time has to pass for this to crystallize not only for the employer, but for the employee as well, if he or she feels comfortable in that position at all.*”

## The Selection Process

The companies taking part in the survey during the recruitment of career starters perform four kinds of selection practice. There are companies which select their young colleagues through a multi-step selection procedure. There are places where they have to go through a personal interview, in the IT fields many times the employee has to present a „work”, and

there are places where the performance showed in an *underqualified* or trainee position is very important. In all cases the final decision of recruiting the candidate is made by the professional managers.

That part of the companies which reported about a multi-step selection procedure, apply many kinds of selection tools in a combined way consciously, according to the given situation. During the pre-screening, recruiters primarily search for relevant studies and experiences in the CVs. This, on one hand shows the directions of interest, if the person would truly like to work in this field, on the other hand previous experience could help faster preparation training. The chosen interviewees go through different kinds of „screening” tasks, which can be linguistic tests as well or a telephone interview, different kinds of professional (e.g. programming) tasks, motivational and skill tests (e.g. reading comprehension test, logical thinking, arithmetic skills, speed, accuracy measuring test, etc.), IQ test, presentation of professional work, portfolio. In the next step, usually a personal interview takes place with the HR expert and with the professional manager. These interviews serve to measure the competences, and many times difficult situation drills are included as well. „*It can be a difficult and strange situation when a statistician comes who tells that he or she will calculate something and they ask him or her how she would solve a social situation*” (the manager of a technical enterprise). In order to realize higher integration proportions there are companies where a trial day or an Assessment Centre is realized as well, where the attitude, thinking and skills of applicants regarding work can be directly observed.

Another group of companies primarily decide about recruitment based on the personal interview. „*Personal interviews are very important, you can see how confident the applicant is, you can see the level of interest about the profession, from the body language, gestures and from the questions*” says the representative of a company dealing with software development, after „*we would see how well do they swim in the deep water*”. The importance of first impression was emphasized by several interviewees. They tried to reduce subjectivity with the principle of multiple eyes, „*we invite likeable applicants to another round*”.

In the IT field, the representatives of the companies reported that in this field to know how much does an applicant manage, would depend on the performed tasks. „*They come to accomplish a task*”. In this field, a degree is not a guarantee that a person would know how to solve an exercise, and can be quite successful in his or her work even without qualifications, „*the majority of IT experts do not finish their higher education, ... in our company there are 20-30 per cent of them*”, reported the HR colleague of a software development firm. In this field, the solution of a task is the entrance, only after that do they measure soft skills, how the

learning abilities are and how well the applicant fits the team, reported a representative of another IT company.

In relation with the opinion that the risk of selection decisions could be decreased by „*underqualified*” positions and trainee programs, the interviewees participating in the survey shared the same perspective. „*That is why we do the trainee program, so that in those 5 months when the students would work here, it could be seen how they could perform in the long run.*” (the manager of a technical enterprise) „*This is a kind of integration, a harmonization with worklife and we employ many of our trainees to main positions, if there is a possibility*” told the HR manager of a large company, about those in who „*we see potential*”. About the career starters who we „*brought up ourselves*”, „*we know it for sure what they are capable of*”, emphasized one of the managers of a smaller company regarding the advantage of the trainee program for them. Trainee programs serve getting to know with each other, to map out expectations and possibilities and this way it facilitates for the parties to find each other. „*In my opinion, the more they see, the easier they can decide what is closer to their hearts. They can see what work activity, process, task are those that they enjoy, and feel that they can achieve successes.*” (the HR manager of a bank)

## **Expectations towards career starters**

### **The Proportion of Hard and Soft Skills within Workplace Expectations**

The interviewees agreed in that during the selection, professional knowledge and personal characteristics have the same importance. When we asked the representatives of the companies about their selection practice, every respondent recommended to measure hard and soft skills. As the representative of an advertisement agency said „*one doesn't exist without the other*”.

Most of the people considered fundamental to find employees whose motivations can be harmonized with the plans and values of the company: „*what future do they have, what is important for them regarding the workplace, what can help them to stay motivated, what are the important factors for them*”. „*Social environment is extremely important. Does the person fit in or not? Some people will never be successful in a position, where they feel that the work environment is strange to them.*”

However, to the question if the role of hard or soft skills is more important during selection, two practices were outlined, which are influenced by the supply and demand relations experienced in certain competences. In case of most positions, it seems that companies roughly

have the possibility to select among graduated students who have the same professional skills, so they choose on the basis of outstanding personal skills. Primarily in case of technical qualifications, companies are more tolerant regarding soft skills, especially in fields requiring special expertise, where it is even more difficult to find more experienced workforce.

In a large part of the positions, during the enrolment, general employee skills received greater emphasis among requirements necessary for career starters than position dependent professional expectations. In this case the expectation towards professional skills appears rather as a basic criterion during the selection of young people, the importance of what kind of skills and abilities does the applicant have, was defined more significant from the perspective of employment and workplace success by interviewees. „*It can be a quite familiar fact that on the basis of the local university training, depending on the majors where students go, let's say it can be roughly known what would the career starters bring from there. That is why I say that things depend much more on their individual skills, since what they can bring is quite the same.*” (a manager of an engineering office). In those cases when there is a possibility to choose from lots of applicants with the same qualifications, the employment of career starters by the companies primarily depends on personal skills.

In the cases of students with technical qualifications, hard skills are regarded to be more important during selection. They are „*a little more focused on their profession*”, that way the professional skills related to the position receive a greater emphasis during selection. Especially in the work fields which require special knowledge, tolerance is higher regarding not having soft skills. This appeared most dominantly in the area of IT. In this field, on many occasions it is not even important if the applicants have proper qualification, only the fact if they could solve a problem or could finish a given work. In such situations, companies are also much more indulgent considering soft skills, too, since „*primarily professional competences are important and personal qualities only come after them, but I would like to emphasize that we speak about programmers*”.

### **General Competence Expectations towards Career Starters**

When we asked interviewees about how are the requirements formed, the usual answer sounded: „it is position dependent”. The participants continued with listing general competences, which showed that in fact companies set a number of expectations toward their employees which can be formulated in a unified way.

Among the first comments of the interviewees, expectations like this related to motivation were quoted: „*in what field would he or she like to work, what are their expectations*”, how

„quickly” they could integrate, how „initiative” and „flexible” they are, and if they have „curiosity regarding their own profession”. Two interviewees summarized it in the very same way: “gleaming eyes”, that is what we are looking for.

In the interviews a number of expectations regarding skills and abilities were mentioned by the experts in the following wordings:

- the perfect applicants would be able to work independently, they have initiative abilities, they would have the perspective to contribute to good work, they can react quickly, they can adapt well to this work tempo, they can prioritize, work towards results, perseverance
- quick learning abilities, willingness to learn, desire to learn, to learn as much as it is possible, desire and ability to improve
- ability to work in a team, willingness to work in a team, ability to integrate in a team, team spirit
- good communication skills, politeness, user friendly, customer centred, assertiveness, good argumentative skills, willingness to ask for help if needed, humility, takes responsibility, openness towards other people
- problem solving skill, ability to solve problems effectively, leading changes, ability to take risks, conflict management, ability to work in projects, systematic approach, to see the big picture, to be able to think in processes and systems, to have the capacity to perform

Particular skills, abilities were mentioned by the interviewees according to the frequency of the above order in the interviews. The representative of an IT enterprise told the following, „we target the independent innovative skills”, but in fact every respondent considers these general employee competences important. These are followed by competences related to learning, cooperation, communication and problem solving. An interviewee formulated a very interesting thought: „*The most important is that the career starter would know if he or she had these competences, what are the strengths, weaknesses that he or she possesses, to be aware what kind of level is expected within the particular competences in the given field.*”

Regarding professional expectations, interviewees think in two ways, one part of them is looking for usable knowledge; others interpret them as motivation and learning skills. There are employers who are looking for the „knowledge behind the man”, the result of the learning, if the employee was able to complete a job. This is mostly characteristic of the IT field. The majority of respondents expect a professional foundation which reflects their interest and learning abilities, „*we are not looking for concrete knowledge, rather for learning ability and the desire to learn ... this has to be learned in worklife anyway.*” (a manager of a technical enterprise). Due to the faster and faster obsolescence of knowledge in the technical and IT

fields, the experience is „that the most important competence is to be open and to learn like a machine”.

The surprising result of the interviews is that among the expectations set toward career starters, who have higher education qualifications, leadership skills and creative thinking, were not mentioned by the participants. „*Otherwise we do not expect from an average career starter to have leadership skills. Moreover, in the majority of the cases career starters get into lower positions, that is why the existence of such competences is also not necessary.*” (the HR expert of a bank)

An observable difference became apparent in defining expectations in the first part and at the end of the interview. In the spontaneously mentioned answers, firstly, the more easily definable competences were listed by many of the respondents. For example the expectation towards language knowledge, which appeared less rarely in the answers given to the questions related to the ideal career starter asked at the end of the interview. At the conclusion of the interview regarding the question about the ideal career starter, we usually got more structured, more compact answers among whose the competences defining work performance to the greatest extent primarily skills, abilities were listed, professional preparedness was less rarely specified. Most of the people highlighted competences related to learning, followed by the independence, problem solving, teamwork and communicational ability.

### **Short and Long Term Expectations towards Career Starters**

The majority of interviewees reported that expectations set toward career starters are not separate from expectations set toward other positions of the companies, „we have no special expectations, just the same, like toward others”, told the representative of a bank. The difference from the rest of the positions is in the probation time in the form of support, received as training. All of this depends on how quickly do we need to „*deploy*” the newcomer into „*action*”, and if he or she can be a useful member of the organization if there are any tasks in this period which can be solved.

Most of the interviewees reported about long term preferences, but there was an enterprise which set short term integration as a priority, and there were people who believed that these two perspectives do not split. In trainee positions „obviously it is not our aim to be able to assign tasks as soon as possible, which are more and more big and independent”. „*If we see the spark at the beginning then we strive to keep it*”, „*we would not like to bring up a prompt, immediate, quickly trained worker, but a banker who is complex and able to think quickly.*” There were people who believed that short and long term goals do not split, that is, if a person

meets the requirements at the beginning then he or she will solve the tasks later as well. „*It is important that they should integrate as early as possible, and deal with things effectively, and it is also important to become an employee who can act like a mature engineer ... in my opinion these two things do not contradict each other.*”

Among the choices of interviewees the most important characteristics supporting short term success are flexibility, openness, the willingness to learn, and the colleague's bravery to ask questions. These competences serve quick integration, adaptation. These are the times when young people's attitude to work is also measured, and when it can be seen if „*he or she is really hardworking, trustworthy, conscientious, interested*”. Humility „*belongs to the topic of patience: I am willing to learn, to invest my time, even if earn less, even if I would be in an administration position for years*” (the representative of a technical enterprise).

As a competence supporting long term success, interviewees specified cooperation skills, diplomatic sense, loyalty, that „*the career starter would not lose his or her enthusiasm because of overload, to be persevering and tough*”. The expectation related to learning is primarily a durable self-improvement process, in which the employee improves his or her professional knowledge. „*They should continually feel the need to professionally improve themselves*”. „*We need good basic skills, professional sense*”, which includes such competences like professional knowledge, presentation skills, conflict management skills, assertive communication; „*all of these are knowledge expansion, knowledge improvement, which takes the person to the expert level*”.

### **Experiences related to the preparedness of career starters**

In the question of experiences related to the preparedness of career starters, the interviewees assessed career starters similarly related to particular competences. About the adaptation to the accelerated tempo, related to the usage of IT and social media a clearly positive response was formulated. Regarding the significance of work procedures, in the field of their connection however, some told that they perceived very big deficiencies. Considering motivation, important soft skills and professional preparedness however, the interviewees reported very different experiences.

Related to the experiences with career starters, technological development and the adaptation to an accelerated world, a clear opinion was formulated during the interviews. „*There are a high number of trendy things in the world, which are mostly IT and social media, and such territories where today's young people are very much at home*”. „*Young people today*

*think very-very quickly and they live in an even more accelerated world*” (told by an HR expert of a service company).

The greatest deficiency was clarified by some interviewees that young people do not see through the operation of companies, professions and because of this, they do not easily find their place. „*It is difficult to hand in an application to a bank, when they don't even know how the banking system is built up*” (a banking expert). Others missed the most that young people do not easily find their own role, place in an organization, since during the university training they received no picture, which would help them to see the significance, work distribution, structure, value system of their profession. „*.... they would need some kind of a compass, to find their own role. Right now, they don't have such a thing. I have the feeling that in the field of different professions, the situation is the similar... They choose something for themselves, but they have no idea where their own suitability and affinity would emerge.*” (the manager of an engineering office).

In reference to the rest of the competences, we met very different opinions, the representatives of entrepreneurial life reported about very positive and about very negative experiences as well.

Two kinds of extreme opinions were formulated about the motivation and work attitude of career starters. There were some who highlighted that career starters are loved because they are very motivated, „*they see it as an opportunity that they can work here*”. This is the attitude which counterbalances that they are not prepared enough professionally, and that „*they don't have that sense of responsibility or way of seeing yet*” (the representative of an IT company). „*When the most confident fresh graduates arrive, then you can absolutely feel the respect towards the work. They absolutely seek cooperation, and want the best for everybody; they try to bring the best out of themselves.*” (the representative of a pharmaceutical company)

„*At the same time, career starters need a completely different work culture, they solve problems in a different way, they have a different attitude*” (a manufacturing worker). Some said that according to their experience, their young employees had difficulties with constraints and monotony. Several HR experts complained about the impatience of career starters, that they feel the employees' expectations are over-exaggerated, „*they want everything at once*”, and miss humility from the behaviour of career starters the most. „*I believe respect is the most important, we haven't met it recently*”. There were some who believed that the higher education institute „*suggests*” this attitude to students. Several interviewees reported about the experience that young colleagues compared to the old ones are usually more conscious about their careers, but they are less loyal: „*young people are more ambitious, and not necessarily plan to stay with the company in the long term*”. The representative of a multinational company

also told that „*the intensified career expectation is many times counteractive, and it doesn't turn out as it should. People - simply - have to get mature to certain positions, I believe.*” There were interviewees who meet both extremes of „*the polarized career starter layer*”, they met with both the sure-footed applicants and with those „*living in the Mama Hotel*” during the interviews. „*There are people who are very well prepared and who build their knowledge, career and experience very consciously even during the university years*” (the representative of a research-development company) and „*there are some who are a little lost in the world of work*” (the representative of an enterprise distributing IT tools).

Different expectations were formed by the respondents during the interviews about the professional preparedness and also about the language skills of the respondents. In higher education institutions several companies treat the acquired skills as a general foundation, which provides an „*up-to-date professional knowledge*”. In case of employees working in technical fields however, several interviewees highlighted that „*this is not a deep, established professional skill, unfortunately*”. The manager of a company added that „*freshness, the willingness to learn and the learning skill*” are more important to them than the actual skill material. Some of them also reported about the differences experienced between higher education institutions, that „*there are higher education institutions where young people leave with very good practical, clever competences, and they are very self-confident and there are educational institutions or faculties where they are very proficient at theoretical knowledge*”. Regarding professional preparedness, IT fields form a separate category, since here „*preliminary study sometime means nothing at all*”. In these profession special skills, special things are sought, „*the amount of self-taught knowledge, shows and helps a lot, because we see what interests them in the profession, this is formed in a way that most of the developers consider programming as a hobby*” (the representative of a software development company).

Regarding communication and cooperation skills extreme opinions were also formed. There were people who were very satisfied with the soft skills of higher education students: „*I notice that within the frames of higher level education they try to prepare students to be able to work even in a multinational company.*” But there were negative opinions as well: „*nowadays degrees are given to such students, who can't even put a sensible sentence together*”, their communication skill is „*terribly weak*”. Some interviewees reported a difference experienced regarding students graduated in technical and economic field related to these employee competences. „*I believe based on my individual experiences, that technical graduates ... are a bit more focused on their profession ..., but they not necessarily have other skills, ... thus they can't work so well in a team than, let's say, alone. But the expectation would be this. ... Economic graduates are much more flexible, ... an economic graduate can integrate into a*

*company more easily than a technical graduate, in general.”* (19) In case of IT specialists, it can be experienced that „*in human interactions they are not so good*”, told the representative of a company distributing IT products. The reason for this is that here regarding the expectations, companies are much more indulgent towards soft skills, since „*primarily professional competences are important and after that personal qualities are secondary, but I would like to emphasize again that we are talking about programmers.*”

### Research summary

By summarizing the results, fundamentally two kinds of approaches are observable about companies participating in the survey regarding the recruitment, selection and employment practice of career starters having economic and technical high education qualifications. Both of them take into consideration that the integration and training of career starters take more time and energy. The majority of companies participating in the survey ensure the acquisition of practical experiences with the performance of a simpler task (*underqualified* positions, trainee program). At such times several people receive an opportunity and companies decide only during the work about with whom they would like to work together in the long term. In the other cases filtering happens at the time of entrance, and they try to filter out the more talented even at that point (trainee programs). They pay more attention to these people’s integration and support their training actively and in many cases they receive significant tasks at the end of the program, but it can happen that they „*customize*” the task for the applicant within the company. The recruitment of career starters in these companies is part of long term thinking, upbringing the new generation and right „*proportions*” are important.

It appears as a clearly „*convenient*” practice in the rules of the enterprises that they employ young people into trainee positions or some arrive to the companies through „*underqualified*” positions still during their studies. The transition from school to work gets „*telescoped*” which is advantageous for both the career starters and the enterprises. For the career starters this is good because they still lack practical knowledge, and on the basis of the interviewees’ presentations they have not got a „*coordinate system*”, they cannot really orientate, they do not find their places in worklife. Companies’ practice on one hand can be interpreted as an adaptation to the supply aspect; on the other hand the trainee program also serves as a bridge between selection difficulties. During work, aptitude can be measured more accurately, and this reduces the risk of selection.

Companies participating in the survey in many ways apply different practices during the defining of selection criteria and the accomplishment process. There were companies where

the definition of requirements happened on the basis of professional managers' individual decision, or maybe with the support of the HR professional department. In other cases, in order to interpret the requirements in a unified way, a competence catalogue is used. And there are places where there are systematic dialogues about the definition of those competences which the company expects of its future and present co-workers. Some interviewees reported the difficulties of defining requirements and some of them used these concepts very naturally. During the selection practice there are companies where the role of personal impression is dominant, and there were others where the applicants had to go through a multi step selection procedure. The results of our survey show that the companies do not put the same emphasis on the selection and procurement necessary for the enterprises. There are cases where the employees' competences are managed less consciously and there are others where they are more conscious. All of this might have an effect not only on the recruitment, selection and employment practice, but on defining the real and declared workplace expectations as well.

The organizations usually do not distinguish between the content of expectations set towards career starters and experienced employees. The difference is in the length and support of probation time and training time. Among the first remarks of the interviewees' expectations motivations were mentioned, for example that the applicant should integrate „quickly”, should be „initiative” and „flexible”, that he or she should be „curious about his or her own profession”, simply to have „gleaming eyes”. The most important expectations towards career starters are competences related to learning, independent work performance, problem solving, and team work and communication skills. Expectations related to professional or language skills did not appear among the most frequently highlighted success criteria.

In contrast with technical and economic graduates, general employer expectations were usually identical according to the results of the survey. The role of soft and hard skills were considered equally important in both fields by the interviewees, which reinforces the earlier research result according to which in complex work positions with higher education qualifications, successful work performance is not ensured by high level professional skills in itself anymore. The deviation between the two professional fields can be experienced in the proportion of soft and hard skills.

In the great part of positions during the time of record, soft skills gained a higher emphasis in the list of requirements set career starters supposed to face. The expectation towards professional skills appears rather as a basic criterion, since according to the interviewees, people arrive from higher education institutions with a very similar professional knowledge and they do not have professional experience. According to the experiences related to career starters, regarding the attitude towards work, humility and ambitions, but even in the case of

communication skills as well, young career starters are very different. In accordance with the supply and demand relations thus when there is a possibility to select from many applicants who have similar qualifications, during the recruitment of career starters the companies decide based upon personal skills.

In case of students who have a technological qualification, the emphasis is put on hard skills during selection, which also takes shape in the relation of supply and demand. According to experiences they are „a bit more profession focused”, some of them regarding cooperation and communication skills felt a „lag” compared to those with economic qualifications. In technical professional fields, especially in job positions requiring special knowledge because of this, there is a greater tolerance considering soft skills. This most dominantly appears in the field of IT. The selection practice applied here also fully deviates from traditional recruitment and selection practice. In this professional field, in many cases not even qualifications count, just that the applicant would be able to solve a problem or perform a given work. Companies in these applicants’ situation, considering soft skills, are forced to reach a compromise in many cases. Regarding learning competence however, the role of independent learning and the responsibility of self-improvement also appeared here most powerfully.

Independent work performance, cooperation, communication, learning and problem-solving expectations frequently included in advertisements in the large part of the positions are in fact important entrance success criteria. During selection at the same time, emphases may change based on how characteristic or how purchasable are particular competences in the work market.

The IT professional field’s example at the same time well shows how competences can be reorganized due to the effect of the new market environment. In this field the development of technology can be felt very quickly, which does not only mean the solution of tasks requiring new professional knowledge, but new work organization and new kinds of work relations as well. The reorganization of the frames of work content and form in this professional field also significantly reshape competence expectations ensuring success.

As a summary of our research results, it can be said that in different workplace situations, expectations towards employees are organized in a very different way, they are formed by the change of business environment, the different selection practice of companies and the supply and demand relations experienced in the market of competences.

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INTERVIEW WITH DR ATTILA SIMON, CEO OF HEREND PORCELAIN  
MANUFACTORY LTD.

**„WHAT IS LUXURY TODAY,  
TOMORROW WILL BE NO LONGER ...”**

**Q:** Please introduce the company briefly.

**A:** The Herend Porcelain Manufactory was established in 1826, we celebrate its 190<sup>th</sup> anniversary this year. The question is usually asked why Herend or in Herend as at the beginning there were no skilled labour and no resources that are needed to produce porcelain. Basically we did not have anything that was required for establishing such a manufactory. The reason lies in the technology of porcelain manufacturing as many firing stages are needed for the ‘white gold’, the porcelain to be born. First the plastic paste is made from the blending of kaolin, feldspar and quartz. After making the rawware the biscuit firing comes at 1000 °C. Then the porcelain goes through the glazing and it is fired again at 1400 °C. This is how white porcelain is made. After that it goes to the painters and depending on the pattern the porcelain goes through further firings even 5 or 10 times. This firing process links to the establishment of the Manufactory as in the 19<sup>th</sup> century the manufactories operated with wood-fired kilns. The nearby Bakony Hills provided the amount of wood needed for firing. We think the wood and wood-fired kilns are the reason why the Herend Porcelain Manufactory was established between the Bakony Hills and Lake Balaton. Today Herend Porcelain Manufactory is the biggest porcelain manufactory in the world based on its profit, number of employees (750 workers), and export markets (about 60 countries). Herend is a porcelain manufactory and not a factory that is why we emphasise the word manufactory in the name. To this day we apply artisan technology to make both white and painted products. Mór Fischer was the one who established manufacturing luxury porcelain products since 1839. His idea was that Herend needs to compete in the international market of luxury porcelains. The milestone of the international introduction was the 1851 Great Exhibition in London, where Queen Victoria ordered a whole collection for Windsor Castle. It was followed by other great exhibitions in Vienna, Paris, Philadelphia, Saint Petersburg, and to this day we have kept this concept. The question may arise what makes a manufactory a manufactory? First of all, apart from doing everything by hand it has its own white and finished ware production, its own specialised vocational school and has a lot of forms (16000 white forms and 4000 patterns). Herend also has its own master training, and considers as important to preserve traditions. It is in our

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strategy to preserve the traditions of applied arts and to pass them on to the next generations. The ownership structure of the manufactory is also special: 75% of the shares are owned by the employees and 25% by the Hungarian state; the latter minority interest is non-marketable. Considering this, the question may arise what the elements are that make this company successful, since if we look closely, employees and owner are in an antagonist situation in terms of their interests. The owner wishes to force down wages, to decrease social benefits and to make more investments in order to gain more profit later. Opposing this, an employee wants high social benefits and wages and low investments to be able to finance employee benefits. For the success of a company operating in this kind of ownership structure it is indispensable to operate profitably and that both parties have the ability to compromise.

**Q:** In today's western world there is a widely criticized growth constraint: the basic criterion of success is the ability to grow generating huge profit and expanding markets. Is it typical for such a product range or is it a value to remain small?

**A:** When we talk about being a small enterprise we should not forget that Herend Porcelain Manufactory's 2015 annual turnover was cca. 5 billion HUF, the pre-tax profit was around 900 million HUF. Manufactory does not mean a small size organisation. It rather means a philosophy and a production technology, but obviously in this kind of ownership and organisational structure growth is vital. We think that a company should grow at least to the point where it can still finance its operation and investments without external support. This means a continuous growth and income rise. If we assume that expenditures are steadily increasing then turnover needs to increase as well to reach the usual profit rate. Even in a case of a manufactory continuous growth is forced. However, there is a very exciting question we have been contemplating on recently, whether sustainable development is really sustainable. Why cannot we say, that we do not need 20% annual growth, less would be also enough? The big dilemma of the 21<sup>st</sup> century is whether sustainable development is a meaningful constraint for a business enterprise. At present we wish to grow in turnover, profit, investments, the number of export markets, acquisitions, so in everything which is measurable we want to reach a higher quality level.

**Q:** Who are your leading competitors in the international markets?

**A:** This is an interesting question. At first we can say that the other porcelain manufacturers. If we consider competitors from this perspective, Herend has only one rival that is a German

manufactory, which was established 100 years earlier than us. There are no other competitors at the moment who manufacture hand-made luxury porcelains. If someone wishes to buy high category porcelain then Herend is today unavoidable. On the other hand if we take profit, export markets and number of employees into consideration, we have to say that the German company is neither our rival any longer. So we can say that today Herend is Europe's (if not the world's) leading porcelain manufacturer. I think Herend has rivals not within the porcelain making industry but among the other luxury product making companies. We can also examine this from another aspect, whether these companies are members of the French luxury industry association Comité Colbert. If we look at its members, we can see that Herend is the only one among the porcelain making companies of Central and Eastern Europe. The previously mentioned German manufactory is not and cannot be a member of the Comité Colbert. If we examine Hungarian companies, we can see that neither of them is a member of this luxury industry association. So if we examine our position from this aspect, we can see again that Herend is a leader in its own sector.

**Q:** A layman may think that traditional porcelain manufacturers in the market are the Chinese and would be surprised to learn that a Hungarian company can be at the world's forefront with its technology.

**A:** If we examine Chinese porcelain as competitor of Herend, then I have to say that they are very strong in mass production, so in this sense the cheap dumping Chinese porcelain ware is not a competitor of our sector but of those companies that also make mass-produced porcelains. In our sector where luxury porcelains are manufactured the appearance of Chinese porcelain makers is not relevant.

**Q:** Can I ask you whether management problems in Herend differ from those of other medium- or large-sized businesses?

**A:** What do you mean exactly?

**Q:** I mean the management tasks: strategy, controlling and human resource management.

**A:** No, I do not think so. Our daily operative tasks are exactly the same as at other companies including multinational companies.

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**Q:** Then let's talk about change management, of which I think we can learn a lot from you.

**A:** First I would like to refer back to our previous conversation: there are so many people who consider change management to be something negative. They think the company is in trouble that is why change management is needed. I think a company always needs change management if its market position significantly differs from the optimal business environment. So the most important task of the management is to map the optimal business position in which the company can operate and its sustainable growth can be guaranteed. First we need to map the optimal strategic operation environment, which includes stable increasing market demand and a non-substitutable product with high selling price. So if there are no competitors and there is continuous demand for our product, we can reach a high sale price. The optimal environment also consists of calculable exchange rates, especially in case of an exporting company such as Herend. The Manufactory depends in 90% on export which means that 9 out of 10 products leave Hungary. Furthermore, the optimal business environment includes the decrease of work-related taxes, predictable long-term tax policy, the flexibility of employment regulations, supporting energy politics, strong competition of suppliers so we can push down supplier prices, low raw material prices, low inflation, cheap bank and financial resources, easily accessible government subsidies, increasing quality of vocational education, strong employee motivation, high creativity, loyalty and the ability of intensive innovation. If all this is present, the company operates in an optimal business environment, and the management could relax as everything is ideal. However, we constantly have to examine how our company differs from the previously mentioned optimal operation environment. Here we need to make a three-fold analysis: global economic environment, national environment (where the business enterprise operates) and business environment, which is the environment resulting from the characteristics of the company's operation. If we take the first then we need to consider globalisation which is unstoppable. For example we need to arrange price structure or product range according to globalisation. Globalisation is today a phenomenon that all exporting companies need to consider. Our global economic environment includes the challenges of technological development as well. We are convinced that we are at the threshold of the fourth industrial revolution. The challenges of demographic change, the new consumption behaviours and the appearance of a new type of workforce are also part of the global economic environment. We then come to the problem of Generation Z that will soon be on the job market and it is very important whether we can communicate with these young people or not. In our experience they live in a difficult virtual world and it is not really easy for them to perceive circumscribed feedbacks. So this is another

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global economic phenomenon we have to consider. The Generation Z as future employees are essentially the output of universities. The Generation Z phenomenon derives from the output of higher education. The *mass revolution* phenomenon belongs to the global economic environment, too. It means what is luxury today, tomorrow will be no longer. What is not available today, tomorrow will be available for the masses. Luxury industry manufacturers continuously need to create new luxury needs in customers. Looking for the economic poles of global economic environment, Asia will be revaluated in the near future. Looking at the economic power centres, namely the trio of Europe, the United States and Asia, every business enterprise needs to pay attention to Asia. We must not forget that the world's three highest GDP possessors Japan, China and India are all in Asia. It is an important fact even if China's GDP has decreased recently.

**Q:** Sorry, I only want to ask you whether it is a conservative technology which is not developing so quickly.

**A:** Companies that live in the past will disappear therefore in our case tradition and innovation must be present together. Our Manufactory has 16000 white forms and 4000 patterns so we have in total 64 million different products. Nevertheless every year we create 300-400 new Herend products. We cannot change much the porcelain manufacturing but innovation has an important role in product design and in novelties brought to the market. In our industry it is also vital to renew year after year, so a continuous innovation and renewal is absolutely necessary.

**Q:** Can you tell me some innovations so that I understand this?

**A:** As the result of our innovation Herend porcelain does not embody old times anymore, it is rather an unavoidable and natural part of 21<sup>st</sup> century's home decoration. Thanks to innovation Herend has found its way to the modern age, we succeeded to harmonize the traditional values of Herend porcelain and the expectations of 21<sup>st</sup> century's modernity.

**Q:** Does it mean design innovation?

**A:** Basically yes, we call it product development or product innovation.

**Q:** What is the proportion of traditional and modern design in sales?

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**A:** Constantly there are customers who go back to traditional patterns but the rising new generations are continuously looking for novelties. The question may arise: who are the customers of Herend? The answer is that returning ladies over 35 years. All of them are of typical criteria: Those who once purchased Herend porcelain will return and purchase again (it is actually a love for a lifetime).

The majority of our customers are ladies.

Our customers are mainly over 35, which influences our marketing strategy as well.

**Q:** Do you examine that those who returned after coming and purchasing once how had decided to purchase this brand?

**A:** I think the decision is based on what people bring from home, whether they have already met the culture Herend represents and whether it has appeared in their socialisation process. On the other hand, when they search for a value and for an international brand, an emotional link has already been formed with Herend porcelain.

**Q:** How did economic recession affect the Manufactory?

**A:** It is difficult to give a concrete answer to this as we had to make radical reforms and paradigm change between 2005 and 2007 due to the fact that the Manufactory's profitability had decreased around 2005 because it had operated according to the old paradigms. At that time the company changed its cost structure which allowed flexibility. Due to this when the international crisis came around 2008-2009, the Herend Porcelain Manufactory already had such an organisational structure that it could adapt to the market changes therefore the Manufactory was basically able to be profitable even in this period.

**Q:** Can it be because luxury market operates in the same way in recession or does not fall back that much?

**A:** Customer behaviour for luxury products differs a bit from mass production. If wealthy people experience their incomes will decrease in the coming years they will hold back consumption but a bit later. Therefore they think they still can afford to buy luxury products. So when the signs of recession are heavily present in mass production and for mass products, it does not appear in the luxury industry so much. On the other hand, when luxury receptive people feel that the recession is over they are more brave to start purchasing earlier than those who even have problems of

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buying everyday products. In my opinion, customers of luxury decrease their expenses a bit later, and they start spending earlier again than customers of mass products.

But coming back to the basic idea of our conversation, if we find that the international, national and company environment differ from the optimal business environment, change management needs to be applied. What we have to do is adapting our operation model to an optimal template. How does it look like? First it is very important that the management decide on the methodology of change management. It starts with an analysis of what, when and how is going to happen. This analysis must be communicated to the management centres within the company. Next step is declaring the stages that lead towards the optimal environment, and setting objectives. It is vital to prioritize when setting the objectives what to change first and later. Then we need to determine in a timetable for these actions. There are immediate and long term actions. After that we need to map the enabling and braking forces: who can we rely on in actions and change management. Another step is determining the leadership style followed by communicating and measuring the actions. It is important to communicate the results of actions to the stakeholders. This is followed by comparing the results with the objectives and if they differ we need to restart a correction process. It is also important to separate from each other the two stages of change management: the phase of stabilisation and the phase of actual reforms. Stabilisation means basically emergency aversion. The phase of actual reforms means when our long term abilities are adapted to the changing environment. That is how we need to operate in the future to avoid emergencies. Both have risks. The danger of stability is, if it is successful, that the organisation calms down and do not step into the phase of actual reforms, which could endanger the long-term operation of the company. I think there is no standardized stability method; each company has to find its own way to do it. The phase of actual reforms means altering the rules that have been set before. Organisations need to close the past and sharply separate valuable elements from unimportant things. We must decide what to keep from the past for the future and what to forget. Of course we need to find a company management innovation for that.

**Q:** What are those things that can be taught from this in management studies and those that can only be learnt at work?

**A:** I think the classic methodology can be taught. Nevertheless a leader must have intuitions. I would argue that in today's world decisions must be always made rationally and leaders must ignore their intuitions. I think that excellent leaders do have intuitions, and they should listen to these intuitions! In answer to your question I say there are some elements which can and must be learnt, but basically leaders must acquire company-specific knowledge.

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**Q:** If it is not a too sensitive information I would be really interested in a past situation when a change management decision was not successful or there was a situation which the Manufactory did not solve efficiently or the environment changed quicker and correction was needed. Since these are the most instructive things when we make a bad decision that we need to correct and stabilise the situation.

**A:** I am in a lucky situation as I have never experienced bad decisions. I think that all situations we had to solve with change management have so far been successful. The most difficult is when we feel that many talks and requests do not hit the target. Those who may think that if a leader orders to do something it will be done accordingly are wrong. It is like riding a horse. The excellent horse riders make the horse go wherever they want without spurring. Hurting a horse can lead to troubles. The same is true for a company. If I order to do something, employees may do it, but if in the lower divisions they do not identify themselves with my request, the managerial decision will not achieve the targeted effect. That is why I say that sometimes we had to take a longer road to have the decision realised even if we lost time. But as I said there have not been made any wrong strategic decisions. The other thing that comes to my mind considering this is that every leader can be measured objectively. Every job title has a measurable parameter and it is important to find these in all our colleagues' work. As for the director, these indicators are the growth of turnover, cost efficiency and profit. These describe the effectiveness of a director in the life of the company. The list could obviously continue with the size of investments, number of employees, innovation ratio etc. As for sales managers, the difference between annual plan and exact achievement can be measured and see the per cent the latter has in the total turnover of the company. It is vital for a company manager to find an objective measure based on which he/she can evaluate each colleague's work and efficiency. Beside the objective feedbacks a company manager should also pay attention to give subjective feedbacks.

**Q:** In these kinds of interviews I always ask the interviewees to introduce briefly their career including the most important leadership milestones.

**A:** By qualification I am a jurist. I graduated from the Faculty of State and Law of Eötvös Loránd University with summa cum laude honour. Then I worked in a law office where I spent my internship. Herend Porcelain Manufactory was looking for a jurist so at the end of my internship but before my final exam I got that job. I made the law examination during my career here. First I became a member of the MRP (Employee Stock Ownership Plan)

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management which is the Manufactory's biggest ownership body, and then in 2003 I became the head of the executive management. I also graduated as a law specialist of European law in order to gain proper law knowledge in the Manufactory's openness to the world. Since 2005 I have been CEO of the Herend Porcelain Manufactory.

**Q:** What is the importance of the type of bachelor degree in a career?

**A:** I am convinced that for a company manager position a law or economics degree is very good. If I need to choose between the two then I say that a law degree is more important. Economic knowledge can be acquired from year to year, especially when a leader is surrounded by brilliant experts in the field, but knowledge of law can only be learnt at university. To this day, I care of all the legal affairs of the company which allows me to keep my hand on the vein of the company. So I think that law degree is very important for leading a company. It is very simple to lead a company economically. If people ask me about the secret of profitability and Herend's success, I always answer in a funny way: we have to try to have higher turnover than expenditures every day, every week, every month and every year. If this is fulfilled, the manufactory cannot be anything but profitable.

**Q:** What would you advise to higher education as an experienced leader?

**A:** In my opinion the lack of professional workforce can be a problematic area in the next 3-5 years. This means that companies used to choose from oversupply of workforce, but in the future they will have to face a shortage of professional labour. There will be a strong competition for well-qualified professionals. The lack of professional qualifications can be a serious lack of resources in companies. Like financial resources, a company needs to gather the best appropriate workforces and build them into its organisation. If we talk about workforce then obviously we get to the point to mention higher education and education in general. It is inevitable to improve Generation Z's lack of knowledge appearing in the output of universities, which is the responsibility of higher education. The main competences that need to be improved are communication skills, learning hierarchy- and regulation-focused approach, and openness towards the real world besides the virtual one. But the most important would be to have some working knowledge when entering the labour market. Dual education can be an effective way to solve the problems of lack of professional workforce in companies as well as of insufficient working knowledge. In this way, a company can provide its own workforce in advance and integrate the future workforce into the company



culture with helping its socialising process and teaching practical company knowledge at a lower cost structure than in the labour market. However, it is vital to adopt dual education to company practice, so it will not be efficient if students go to higher education institutes from Monday to Friday, and the prospective employer only receives them for the weekend. Dual education works successfully when higher education considers the professional expectations of the internship provider companies.

**Q:** What I see from the educational institute's point of view is that the relationship with the companies does exist but it could be more intensive. If I look at international examples, companies and non-profit organisations have more active relationship with higher

education. Why do you think it is difficult to motivate companies to be part of education and bring actual daily problems? I have to admit that here in Veszprém it works quite better than in many other cities of Hungary. I have mainly experience in Budapest and Szeged. It was very difficult to integrate companies into education especially in Budapest. Though I have tried my best to invite at least one company expert to each module so students had an idea about the workplace where they would work and learned about future dilemmas and problems.

**A:** I think there are many reasons from the side of higher education as well as of business sector. One reason for this may lie in the subject, namely, in the past business sector and higher education institutes did not communicate. It is difficult to change as people are reluctant to change. Those who do not want to change have a highly developed enemy image. They often say: "Why should we change if everything has been good in a way it is?" The other reason is in the demographic situation. In the recent years, higher education institutes were flooded with applicants so they were easily able to acquire the number of students they needed. However, the unpleasant demographic change and the change of higher education concept will cause that not all graduating secondary school students will automatically be higher education students. I think the competition for students will make the leaders of higher education institutes want and dare to change their routines. Until now, the favourable demographic situation and the high number of applicants have not made the intense communication of higher education towards business sector absolutely necessary. Obviously there have always been some exceptions. Those universities and colleges that have already had active relationship with business partners have now become education institutes providing competitive degrees.

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## RELATIONSHIP BETWEEN LEADERSHIP AND FINANCIAL PERFORMANCES: TRANSITION CONDITIONS

### Abstract

This research was aimed at determining the state of leadership in companies in Serbia, as well as its influence on financial performances (FP). The research was conducted using questionnaires. The data were collected by polling 256 managers from 131 companies. The result of the survey implies that, in companies in Serbia, transactional leadership is present more frequently than transformational leadership. Basic analysis has revealed that in companies in Serbia there is a statistically significant influence of leadership dimensions on FP. Then, the analyses of the influence of leadership dimensions on FP were carried out by the help of the following moderators: National Origin of Companies and Company Ownership Structure. The results indicate the existence of moderating effects in both cases, but only on some correlations between leadership dimensions and financial performances. These results can be considered relevant for the analysis and understanding of the here mentioned issues of leadership in a number of countries in Eastern Europe, which are in the process of transition.

**Key words:** Leadership, Financial Performances, National Origin of Companies, Company Ownership Structure, Serbia.

### Introduction

There is a large volume of published literature on the impact of leadership on various aspects of business performance (Ahearne, Mathieu, & Rapp, 2005; Bass, Avolio, Jung, & Berson, 2003; Barling, Weber, & Kelloway, 1996; Meindl, Ehrlich, & Dukerich, 1985; Lieberson & O'Connor, 1972).

According to (Eubanks and Mumford, 2010), some leadership strategies are successful, while others are less so. This, self-evidently, supports the fact that leaders exert a certain

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influence on business outcomes. The theoretical study Cannella and Monroe (1997) among other leadership theories, emphasises the importance of transformational leadership theory. Indeed, there are a number of references confirming a significant correlation between CEO transformational leadership and organisational outcomes, such as (Zhu, Chew, & Spangler, 2005; Thomas, 1988). Moreover, CEO transformational leadership has a direct impact on performance in small and medium sized enterprises (Ling et al., 2008a).

It is important to describe the differences between transformational and transactional leadership in regard to their influence on organisational performance. Some studies point to the increasing influence of transformational leadership on performance. According to (Howell, Neufeld, & Avolio, 2005), transformational leadership is a positive predictor of unit performance, while transactional leadership (Contingent Reward Behaviour segment) has no effect on performance. In dynamic environmental conditions, transformational leadership has a significantly positive effect on new venture performance (Ensley, Pearce & Hmielewski, 2006), whereas transactional leadership has a significantly negative effect. According to (MacKenzie, Podsakoff, & Rich, 2001), transformational leader behaviour has a stronger direct and indirect impact on sales performance than transactional leader behaviour.

Another group of studies show that in addition to transformational leadership, organisational performance is also influenced by transactional leadership. The reference (Hofmann & Jones, 2005) confirms that leadership (both transformational and transactional) has a predictive effect on collective personality, which is in turn significantly linked to collective performance. Both transformational leadership and transactional leadership (Contingent Reward Behaviour segment) positively affect the performance of army units (Bass et al., 2003). In Russian companies, (Elenkov, 2002) transformational leadership positively predicts organizational performance. This influence is stronger than in the case of transactional leadership, but transactional leadership is also positively related to performance.

What is of particular importance for this study is the fact that financial performance also relates to leadership. According to (Koene, Vogelaar & Soeters, 2002), there is a clear relationship between local leadership and financial performance in stores, while (Waldman, Ramirez, House, & Puranam, 2001) view transactional and charismatic CEO leadership as a financial performance predictor. In the reference (Barling et al., 1996), it has been established that transformational leadership training can significantly increase financial performance levels. The research (Yukl, 2008) has demonstrated that high organizational effectiveness and high financial performance require a leader to be cooperative, flexible and adaptive to changes in the environment.

There are a number of studies which confirm the indirect influence of leadership on company performance. For example, effective leadership behaviour has a positive relation to organizational commitment, which in turn leads to an also positive influence on company performance (Steyrer, Schifflinger, & Lang, 2008). According to (Kim & Brymer, 2011), ethical leadership has a positive relation to subordinate job satisfaction. This further leads to the subordinate will to invest additional effort, and consequently improved business performance. According to (Aragón-Correa, García-Morales & Cordón-Pozo, 2007), transformational leadership has a significant impact on organizational learning, and indirectly affects company innovativeness. Innovativeness, in turn, has a positive important influence on performance. The research (Wang, Tsui, & Xin, 2011), demonstrated that CEO relationship-focused behaviour is related to employee attitudes, which through employee attitudes, indirectly relates to company performance.

Some references, such as (Tosi et al., 2004; Ahearne et al., 2005; Waldman, Javidan & Varella, 2004), suggest the influence of leadership on performance. There is also a group of references which minimise the influence of leadership in this area. For instance, in the reference (Meindl et al., 1985), it is stated that leadership can serve to gain an understanding of the relationships and relations within organisational systems, but has no significant influence on organisational performance. According to (Pfeffer, 1977), the very conditions and circumstances in the environment can lead to higher/lower business outcomes, and the leader as such has little to take merit/blame for. Similarly, in (Lieberson & O'Connor, 1972) it is claimed that performance levels depend on leadership influence, but also on environmental conditions. Practically, the leader and his/her results are restricted by environmental influences.

Most European countries in transition (Russia, Hungary, Romania, Bulgaria, and the countries formed after the breakup of Yugoslavia, including Serbia), characterized by high unemployment rate and a still insufficient readiness for competition, are very interesting area of research from the point of application of the results of Western researchers especially in the area of leadership. These countries still have relatively low standard of living while the salaries are much lower than those in the highly developed countries of Western Europe and the United States. There is a high degree of uncertainty related to job security and therefore for the majority of employees in Serbia, keeping their job is a greater motive for achieving high performance, rather than rewarding and promotion prospects. In the last two decades, many foreign investors have been interested in opening facilities in transition countries due to their relatively cheap, but educated workforce. For the management of these facilities and for the scientific community as well, it is important to examine the possibility of application

of the results of Western researchers in the field of leadership in organizations in transition countries.

Besides the similarities between Serbian and Eastern European countries in terms of transition conditions, there is a similarity in the national culture. Serbia is not a part of the GLOBE project (House, Hanges, Javidan, Dorfman, & Gupta, 2004), which is focused on exploring cross-cultural aspects of leadership. However, the most likely is that the results in Serbia would be the closest to the results of the Eastern European cluster, consisting of eight countries: Albania, Georgia, Greece, Hungary, Kazakhstan, Poland, Russia and Slovenia (Bacacs, Takacs, Kracsnyi, & Imrek, 2002). For these reasons, any research in the area of leadership in Serbia can be taken as a good basis for an analogue analysis and understanding of leadership in other Eastern European countries.

In addition to the general fact that there are still many unclear areas and room for further research into the field of leadership, the situation in European transition countries (Russia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Serbia) suffers from yet another problem: there are only several researches dealing with this problem area. This paper seeks to fill in this gap and determine the state of leadership and its influence on business performance in companies in transition countries. Such research has additional significance in the light of transitional conditions, the existence of state and private owned companies, and the recent increase in the number of foreign companies operating in these countries.

## **Theory and hypotheses**

### **Transformational and Transactional Leadership**

Burns (1978) described leadership as a developing interrelationship process in which leaders influence followers, whereby the leaders themselves 'suffer' from such an influence resulting in a change of behaviour as they face acceptance or opposition. Moreover, Burns (1978) was in fact the first to make a clear distinction between transactional and transformational leadership. According to him, transactional leadership is based on leaders who motivate followers through a system of reward and punishment, while transformational leadership is based on motivating followers to achieve collective goals. Transactional leadership motivates followers by appealing to their own interests. Transactional leaders seek to provide appropriate rewards to their subordinates when they perform their work on the required level (Burns, 1978). Transactional leadership behaviours are mainly focused on following and maintaining the desired level of organisational operations and tasks.

However, according to (Bryman, 1992; MacKenzie et al., 2001), transactional leadership has failed to show significant results in terms of achieving higher business performance. Consequently, the theory of transformational leadership has gained importance (Bass, 1985; Burns, 1978; Conger & Kanungo, 1987; House, 1977). Contrary to transactional leadership, transformational leaders focus their attention on the relationships with their followers (Cannella & Monroe, 1997). Under the conditions of transformational leadership behaviour, subordinates feel confidence in their leader, feel good in his presence and respect and admire their leader (Conger & Kanungo, 1987; House et al., 1991). Almost all authors in the field of transformational leadership agree that the key characteristic of transformational leaders is the ability to motivate followers to exceed their own expectations (Bass, 1985; Burns, 1978; House, 1977; House & Shamir, 1993).

According to (Bass, 1985), there are two main dimensions of transactional leadership: contingent reward behaviour (positive supervisory feedback) and management-by-exception (negative supervisory feedback). Some authors (Podsakoff, Todor, Grover, & Huber, 1984) refer to the second dimension as contingent punishment behaviour, because this form refers to corrections, criticism and other forms of punishment.

### Financial Performance

Some references examine certain financial performance sets. For example, the papers (Tan & Litschert, 1994; Wang, Tsui, Zhang, & Ma, 2003), and the recent study (Wang, Tsui, & Xin, 2011) describe research into the following financial performance aspects: profitability, sales growth, asset growth, market share, and competitive status in the firm's industry. In the reference (Nikolić, Savić, Čoćkalo, Spasojević – Brkić, & Ivin, 2011), an investigation was carried out into the influence of public relations in Serbian companies on the following financial performance aspects: salary share in business revenue, productivity, efficiency, profitability, liquidity, profit margin (profit share in business revenue), and potential financial risks (exchange rate fluctuations, high interest rates and the like).

### Research hypotheses

Based on the aforementioned theoretical studies, we propose the following hypotheses:

H1: Transformational and transactional leadership dimensions exert a statistically significant influence on financial performance in companies in Serbia.

H2: A company's national origin has a moderating effect on the correlation between leadership dimensions and financial performance, in companies in Serbia.

H3: Company ownership structure has a moderating effect on the correlation between leadership dimensions and financial performance, in companies in Serbia.

## **Method**

### **Survey Instruments (Measurements)**

*Transformational leadership behaviour.* The research (Podsakoff, MacKenzie, Moorman, & Fetter, 1990) used Transformational Leadership Behaviour Inventory (TLI), developed by Podsakoff et al. This questionnaire was used in the reference (MacKenzie et al., 2001). The questionnaire contains six dimensions dealing with transformational leadership behavior: articulating a vision, providing an appropriate model, fostering the acceptance of group goals, having high performance expectations, providing individualized support and providing intellectual stimulation. The first three dimensions have high intercorrelations, so as a result they are merged into a single construct called the core transformational leader behavior (Podsakoff et al., 1990; MacKenzie et al., 2001). In this way, four dimensions of transformational leadership are defined (which are investigated in this paper), which are: Core transformational leader behavior (three - item), High performance expectations (three - item), Supportive leader behavior (four - item) and Intellectual stimulation (four - item).

*Transactional leadership behaviour.* In this paper, transactional leadership behaviour measurement was carried out through two dimensions: contingent reward behaviour and contingent punishment behaviour. In the reference (Podsakoff et al., 1984; MacKenzie et al., 2001) a four - item Contingent Reward Behaviour Scale was used to measure contingent reward behaviour and a three - item Contingent Punishment Behaviour Scale (Podsakoff et al., 1984; MacKenzie et al., 2001) to measure contingent punishment behaviour. In this paper, the respondents carried out their evaluation of all leadership related items (transformational and transactional leadership behaviour) on seven-point Likert scales ranking from 1 (strongly disagree) to 7 (strongly agree). This model was used according to the reference (MacKenzie et al., 2001).

*Financial performance.* In selecting the financial performance aspects to be correlated to leadership in this study we were guided by the references (Tan & Litschert, 1994; Wang et al., 2003; Wang et al., 2011). These articles examined the following aspects of financial performance: profitability, sales growth, asset growth, market share, and competitive status

in the firm's industry. The group of the said five financial performance aspects was extended by two more: productivity and salaries. Based on previous analysis we formed a seven-item financial performance set to be examined in this paper: FP1 - Productivity, FP2 - Profitability, FP3 - Market share, FP4 - Sales growth, FP5 - Competitive status, FP6 - Asset growth and FP7 - Employee salaries. All financial performance items were assessed by the respondents on five-point Likert scales. This was modelled on the references (Tan & Litschert, 1994; Wang et al., 2003; Wang et al., 2011).

### Participants and Data Collection

The research was carried out in Serbian companies. The survey was conducted by respondents (middle managers) completing a questionnaire. The questionnaire is composed of items for measuring the dimensions of the transformational leadership behavior, items for measuring the dimensions of the transactional leadership behavior and items for measuring financial performance. In addition, in the questionnaire there were questions related to general information on the respondents, including questions about the National origin of companies and Company ownership structure. The questionnaire completing was carried out at the respondents' workplace. The examiner would present the distributed questionnaires to the middle managers, gave some general instructions and wait for them to complete the questionnaire. A total of  $N = 256$  middle managers from 131 companies in Serbia completed the questionnaire. The correspondent distribution is presented in *Table 1*.

	Distribution of participants	Frequency	Percent
	Total (N)	256	100
National origin of companies	Serbian companies	173	67.6
	Foreign companies	83	32.4
Ownership structure	State - owned companies	118	46.1
	Private companies	138	53.9

*Table 1.* Distribution of survey respondents

## Results

### Descriptive Statistics

The descriptive statistics for the leadership dimensions and financial performance are shown in Table 2. Cronbach's alpha values are relatively high and range in the interval from  $\alpha = 0.83$  to  $\alpha = 0.93$ .

Dimensions	Short name	N	Min.	Max.	Mean	Cronbach's alpha
Core transformational leader behaviour	L1	256	1.00	7.00	4.5	.93
High performance expectations	L2	256	1.00	7.00	5.5	.83
Supportive leader behaviour	L3	256	1.00	7.00	3.8	.87
Intellectual stimulation	L4	256	1.00	7.00	4.1	.92
Contingent reward behaviour	L5	256	1.00	7.00	3.9	.88
Contingent punishment behaviour	L6	256	1.00	7.00	5.1	.88
Financial performance	FP	256	1.00	5.00	3.4	.88
Valid N (listwise)		256				

Table 2. Descriptive statistics

### Correlational Analysis

Table 3 shows the basic results: the correlations of all leadership dimensions and certain financial performance aspects, followed by the correlations of leadership dimensions and financial performance in total (FP construct). These results refer to a sample of a total of  $N = 256$  respondents. In Table 3, statistically significant correlations are marked in the following way:  $*p < 0.05$ ;  $**p < 0.01$ . As can be seen, out of a total of 48 correlations, there are 29 correlations with  $**p < 0.01$ , 5 correlations with  $*p < 0.05$  and 14 correlations with no statistical significance.

	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	.36**	.33**	.39**	.19**	.17**	.24**	.24**	.36**
L2	.39**	.34**	.33**	.20**	.23**	.28**	.19**	.36**
L3	.16*	.11	.11	.09	.03	.06	.05	.11
L4	.29**	.29**	.36**	.20**	.19**	.23**	.27**	.34**
L5	.23**	.22**	.29**	.12	.09	.17*	.25**	.25**
L6	.17*	.13	.09	.08	.15*	-.01	.11	.13*

Table 3. Correlations of leadership dimensions and financial performance (Pearson's Correlation)

Table 4 shows the results of the examination of the moderating effect of National origin of companies on leadership influence on financial performance. In Serbian companies, out of a total of 48 correlations, there are 26 correlations with \*\*p<0.01, 6 correlations with \*p<0.05 and 16 correlations with no statistical significance. In foreign companies, out of a total of 48 correlations, there is no one correlation with \*p<0.01, 5 correlations with \*p<0.05 and 43 correlations with no statistical significance.

National origin	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP	
Serbian	L1	.37**	.33**	.43**	.18*	.17*	.22**	.23**	.35**
	L2	.41**	.35**	.34**	.20**	.25**	.26**	.17*	.36**
	L3	.15*	.12	.14	.09	-.01	.04	.03	.10
	L4	.32**	.33**	.39**	.23**	.22**	.24**	.27**	.37**
	L5	.27**	.27**	.34**	.13	.09	.15*	.28**	.28**
	L6	.15*	.07	.04	.05	.13	-.07	.03	.07
	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP	
Foreign (other)	L1	.27	.28	.22	.18	.13	.37*	.25	.32*
	L2	.25	.26	.26	.14	.16	.38*	.22	.31*
	L3	.13	.00	-.08	.09	.24	.22	.03	.12
	L4	.13	.14	.22	.09	.05	.23	.23	.21
	L5	.12	.01	.02	.12	.11	.23	.12	.14
	L6	.13	.25	.23	.11	.19	.21	.34*	.28

Table 4. The moderating effect of National origin of companies on leadership influence on financial performance (Pearson's Correlation)

The Chow test is used to determine whether the independent variables (leadership dimensions) have different impacts on dependent variables (performance measures) in different subgroups of the population (Chow, 1960; Dougherty, 2007). To test the moderating effect of National origin of companies, the Chow test analysis was used. Table 5 presents the regression coefficients of independent variables  $Li$  and the dependent variables  $FPi$ , as well as the value of F-statistic greater than the critical value of  $F = 2,252$ , according to the Chow test. In foreign companies, there is only one statistically more stronger correlation than in Serbian companies. All the other correlations are either statistically more stronger in Serbian companies (8 correlations), or statistically equally strong (39 correlations).

		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	RS	195.569	240.061	235.688	271.197	299.953	274.964	257.721	140.813
	RS1	144.101	184.064	184.266	198.246	240.229	221.209	203.631	110.69
	RS2	48.074	54.846	49.565	71.469	58.996	51.508	52.044	29.44
	F	2.225284	0.607032	1.000785	0.692331	0.306552	1.038153	1.008296	0.61413
L2	RS	190.147	238.235	249.499	270.344	292.41	270.279	263.424	140.246
	RS1	137.991	181.393	199.648	196.791	232.664	217.094	208.826	109.975
	RS2	48.582	55.511	48.591	72.373	58.589	51.27	52.887	29.631
	F	2.413661	0.707907	0.639545	0.552377	0.500534	0.899115	0.82375	0.577626
L3	RS	218.8	265.471	276.018	278.874	308.843	291.057	273.166	159.314
	RS1	162.811	203.11	221.506	203.559	247.566	232.022	214.284	125.252
	RS2	50.87	59.512	51.672	73.244	56.567	56.905	55.517	32.394
	F	3.01849	1.366885	1.309915	0.942714	1.951317	0.928885	1.571492	1.333164
L4	RS	204.949	245.313	243.302	269.86	296.991	276.516	253.489	142.235
	RS1	148.923	184.272	192.154	194.698	234.907	219.132	198	109.298
	RS2	50.887	58.313	49.489	73.154	59.923	56.699	52.627	31.468
	F	3.240649	1.416938	0.865053	0.944581	0.923536	0.312909	1.438839	1.314906
L5	RS	212.913	255.816	256.689	277.461	306.75	284.067	257.287	151.285
	RS1	154.616	190.575	199.305	201.837	245.688	226.847	197.763	116.486
	RS2	51.053	59.508	52.024	72.754	59.361	56.594	54.741	32.231
	F	4.437927	2.88847	2.68716	1.31694	0.702595	0.27828	2.386727	2.17573
L6	RS	218.169	264.696	277.311	279.852	302.092	292.169	270.384	158.682
	RS1	162.628	205.232	225.42	204.706	243.359	231.232	214.374	125.887
	RS2	50.815	55.737	49.252	72.839	57.9	57.065	49.201	30.312
	F	2.78986	1.799455	1.210586	1.047333	0.348398	1.692255	3.25499	2.002945

Table 5. Results of the Chow test for moderator National origin of companies

Table 6 shows the results of the examination of the moderating effects of Company ownership structure on leadership influence on financial performance. In state owned companies, out of a total of 48 correlations, there are 29 correlations with  $**p<0.01$ , 7 correlations with  $*p<0.05$  and 12 correlations with no statistical significance. In private companies, out of a total of 48 correlations, there are 7 correlations with  $**p<0.01$ , 10 correlations with  $*p<0.05$  and 31 correlations with no statistical significance.

Ownership structure	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP	
State – owned	L1	.52**	.46**	.55**	.43**	.35**	.39**	.41**	.58**
	L2	.40**	.36**	.36**	.31**	.32**	.33**	.25*	.44**
	L3	.05	.06	.09	.10	.09	.11	.03	.10
	L4	.39**	.43**	.51**	.36**	.34**	.39**	.37**	.52**
	L5	.26**	.29**	.36**	.20*	.28**	.21*	.22*	.34**
	L6	.27**	.20*	.20*	.15	.19	.06	.17	.23*
	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP	
Private	L1	.22*	.21*	.26**	-.00	.03	.12	.10	.17
	L2	.36**	.31**	.30**	.12	.18	.23*	.14	.30**
	L3	.26**	.17	.14	.11	-.01	.03	.07	.14
	L4	.20*	.17	.22*	.07	.08	.11	.18*	.19*
	L5	.21*	.16	.22*	.07	-.05	.14	.27**	.19*
	L6	.09	.06	-.00	.02	.12	-.07	.06	.05

Table 6. The moderating effect of Company ownership structure on leadership influence on financial performance and new product development (Pearson's Correlation)

In order to test the moderating effect of company ownership structure, the Chow test analysis was used. Table 7 presents the regression coefficients of independent variables  $L_i$  and the dependent variables  $FP_i$ , as well as the value of F-statistic greater than the critical value of  $F = 2,252$ , according to the Chow test. In privately owned companies, there are two statistically stronger correlations than in state owned companies. All other correlations are either statistically stronger in state owned companies (21 correlations), or statistically equally strong (25 correlations).

		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	RS	195.569	240.061	235.688	271.197	299.953	274.964	257.721	140.813
	RS1	64.294	94.76	86.946	94.283	110.28	92.415	100.318	44.803
	RS2	124.859	140.134	141.871	162.521	182.11	177.781	150.033	88.852
	F	4.27387	2.77164	3.78372	7.06188	3.25913	2.223453	3.70927	6.74803
L2	RS	190.147	238.235	249.499	270.344	292.41	270.279	263.424	140.246
	RS1	73.872	103.899	108.676	104.421	112.345	97.238	112.393	54.427
	RS2	114.03	132.182	138.414	160.267	176.65	171.031	148.303	83.08
	F	1.505412	1.149622	1.228435	2.69244	1.488918	0.944052	1.318501	2.50979
L3	RS	218.8	265.471	276.018	278.874	308.843	291.057	273.166	159.314
	RS1	87.995	119.373	124.208	114.176	124.489	107.821	119.939	66.512
	RS2	122.002	142.314	148.959	160.61	182.285	180.441	150.718	89.741
	F	5.28188	1.821963	1.315042	1.874506	0.849792	1.221701	1.168024	2.46834
L4	RS	204.949	245.313	243.302	269.86	296.991	276.516	253.489	142.235
	RS1	74.357	97.788	92.348	100.126	110.613	92.884	103.399	48.779
	RS2	125.58	142.08	144.563	161.823	181.228	178.448	146.623	88.23
	F	3.15855	2.8602	3.39902	3.80527	2.223471	2.40732	1.747214	4.80608
L5	RS	212.913	255.816	256.689	277.461	306.75	284.067	257.287	151.285
	RS1	82.133	109.453	108.67	110.801	116.001	104.504	114.178	59.376
	RS2	125.389	142.478	144.181	161.795	181.841	177.016	140.506	88.305
	F	3.27322	1.943032	1.912541	2.248712	3.76847	1.139962	1.287784	3.0749
L6	RS	218.169	264.696	277.311	279.852	302.092	292.169	270.384	158.682
	RS1	81.811	115.097	120.336	112.726	121.123	108.834	116.591	63.674
	RS2	130.134	145.881	151.842	162.469	179.644	179.745	150.91	91.284
	F	3.70013	1.795048	2.37623	2.132241	0.555081	1.567474	1.357969	3.02807

Table 7. Results of the Chow test for moderator Company ownership structure

## Discussion

Within descriptive statistics (Table 2), it is important to give consideration to the mean values of individual dimensions (observing the available evaluation items range: min - max). Since the total average grade for the four transformational leadership dimensions is 4.4966, and the total average grade for the two transactional leadership dimensions is 4.5464, it can be concluded that in Serbian companies under investigation, transactional leadership has a slightly larger share than transformational leadership. The highest average grade of all leadership dimensions is evidenced for the L2 - High Performance Expectations dimension.

Similarly, the L6 - Contingent Punishment Behaviour dimension also has a high grade. The lowest average grade is evidenced for the L3 - Supportive Leader Behaviour dimension, followed by L5 - Contingent Reward Behaviour. This suggests that management in Serbia is task and result oriented, with the emphasis on punishment, while rewards and leadership support are less frequent. Transformational leaders show little interest in employee emotions, while transactional leaders rarely reward subordinates. The dimension of FP - Financial Performance has almost average value.

Table 3 shows the basic results of the correlational analysis in this study. The high percentage of statistically significant correlations (71%) clearly indicates the statistically significant effect of leadership dimensions on financial performance, in Serbian companies. Thus, hypothesis H1 is confirmed. The leadership dimensions with the strongest correlations are L1 - Core Transformational Leader Behaviour and L2 - High Performance Expectations. On this basis, it can be concluded that the most significant impact on the business performances (financial ratios) has visionary and strategic components in the work of top managers, as well as its focus on achieving high performance. On the other hand, the strongest correlations between leadership dimensions and the individual financial performance aspects are evidenced for FP1 - Productivity and FP3 - Market Share and leadership dimensions L1 - Core Transformational Leader Behavior and L2 - High Performance Expectations. Significant correlations are also evidenced for FP - Financial Performance in total (dimension). Observed individually, the three strongest correlations, listed in order starting from the strongest, are as follows: 1. L1 - Core Transformational Leader Behaviour and FP3 - Market Share, 2. L2 - High Performance Expectations and FP1 - Productivity, 3. L2 - High Performance Expectations and FP - Financial Performance in Total (dimension). Analysis of the correlations suggests a simple and logical conclusion: the strategy and vision of leaders significantly influence the market share, while striving for results and performance directly affects productivity. These correlations are the strongest at the correlation analysis.

As it can be seen from Table 3, the correlations between L3 - Supportive Leader Behaviour leadership dimension to all the performance aspects under consideration are very weak. This can be explained by the low value of this dimension (it has already been stated that this is the dimension with the lowest grade of all leadership dimensions in companies in Serbia). The improvement of this dimension is likely to increase its correlation to financial performance. The analyses presented below will further support this claim.

Examined within the context of the transformational and transactional leadership division, transformational leadership can be said to be correlated to financial performance with the exception of the L3 - Supportive Leader Behaviour segment. Transactional leadership

dimension L5 - Contingent Reward Behaviour is correlated to financial performance. The findings were somewhat different in (Howell, Neufeld, & Avolio, 2005), where transformational leadership is viewed as a positive predictor of unit performance, while transactional leadership (the Contingent Reward Behaviour segment) has no effect on performance. However, according to this reference, in some cases there can be positive relation between performance and Contingent Reward Behaviour (for example, the physical distance between a leader and his/her followers). It seems that, due to the poor financial situation and low standard of living of employees, rewards, at the moment, nevertheless yield better performance results in Serbian companies. However, this study has similar findings to those in the references (Elenkov, 2002; Bass et al., 2003). Namely, according to (Elenkov, 2002), transformational leadership positively predicts organizational performance in Russian companies. This influence is stronger than that of transactional leadership, but transactional leadership is also positively related to performance. Moreover, according to (Bass et al., 2003), both transformational leadership and transactional leadership (the Contingent Reward Behaviour segment) positively affect the performance of military units. In companies in Serbia, there is a similar influence of transactional leadership in the reward segment. This can be explained by the fact that to a soldier any reward (leave of absence, permission to go out, etc.) means a great deal, just as it does to employees with a low standard of living (companies in Serbia).

The findings presented in Table 4 and Table 5 confirms the moderating effect of National origin of companies on some correlations between leadership dimensions and financial performance, in companies in Serbia. Thus, hypothesis H2 is partially confirmed. Generally, based on Table 4, the following can be concluded: the correlations between leadership dimensions and financial performance are much stronger in Serbian companies than in foreign ones. A possible explanation for this can be found in the fact that foreign companies in Serbia have clearly set goals and tasks, so generally speaking, it could be stated that the management system is better organised in foreign organisations than in their Serbian counterparts. Under such conditions leadership can, but does not have to, affect financial performance. In foreign companies in Serbia, a high level of performance is inherent and leadership alone is not enough to achieve high outcomes and change the desired management system.

On the other hand, there are two possible explanations for the significant influence of leadership on performance in Serbian companies. Firstly, in most cases, Serbian companies have less stable organisational systems in comparison to foreign ones, so, under such circumstances, weak leadership has a strong negative effect on performance. Secondly, it is not rare in Serbian companies to have an ambitious and capable individual who decides 'to

take matters into his own hands' and, owing to his leadership abilities as such, achieve high business performance. There are far fewer opportunities for such individual initiatives in foreign companies. This does not imply that in their countries of origin (for the purposes of this study they are referred to as foreign), leadership has no influence on performance. This only suggests that, in foreign companies in Serbia, local management mostly has no significant role in regard to strategic goals and plans, and consequently in achieved performance.

However, Table 5 shows that there are only nine pairs in which the moderator effect of National origin of the companies was confirmed. In Serbian companies, there are eight more statistically stronger correlations than in foreign companies. According to the results given in Table 5, these findings are most pronounced in FP1 - Productivity. At the same time, this result is consistent with the results of the basic correlation analysis (Table 2). Among the dimensions of leadership, where there is a significant moderator effect of the National origin of companies, the L5 - Contingent Reward Behavior segment can be extracted. This result is also consistent with the results of the basic correlation analysis (Table 2), as previously was explained. The fact that foreign companies show only one correlation of statistically higher significance than Serbian companies deserves special attention. This is the relation between Contingent Punishment Behaviour and Employee Salaries. One possible explanation may be that foreign companies in Serbia offer significant income opportunities, but expect a high level of company loyalty in exchange.

The findings presented in Table 6 and Table 7 confirms the moderating effect of Company ownership structure on some correlations between leadership dimensions and financial performance, in companies in Serbia. Thus, hypothesis H3 has been partially confirmed. Generally, based on Table 6, the following can be concluded the correlation of leadership dimensions and financial performance is stronger in state owned companies than in private ones.

A similar explanation to that offered for the moderating effect on Serbian and foreign companies may also apply to the confirmed moderating effect of Company ownership structure in the relation between leadership dimensions and financial performance. The explanation given for Serbian companies may be applied to state owned companies, while that given for foreign ones may hold true for private companies. There are similarities, with somewhat stronger correlations between leadership and the observed performance aspects in private with respect to foreign companies (based on the results given in Tables 4 and 6). Observing all companies in Serbia, the findings for these two moderators indicate that the influence of leadership on financial performance has the greatest significance for Serbian state-owned companies. Commentaries about Serbian companies (as opposed to foreign

ones) are the most pronounced here. Yet another aspect of interpreting this phenomenon deserves to be pointed to. Namely, such findings may partially be explained due to the fact that the 'custom' of appointing leaders through political power still survives in Serbian state-owned companies. Such leaders often have political strength and possibilities, so some companies have good business results as a consequence of this power, rather than as an actual reflection of their market success. At the same time, this does not diminish the importance and role of transformational leaders in state-owned enterprises. It may be better to say that a transformational leader has a vision that is presented to employees, and employees know that his "political power" (for example, to get a favorable low interest rate loan from the state development bank in order to invest in production modernization), allows easier and more certain realization of this vision. This knowledge gives employees confidence that the set goal can be realized, which, according to Locke's theory of motivation is an important motivator for achieving high performance.

On the basis of Table 7, it can be seen that there are 23 pairs where the moderator effect of the Company ownership structure was confirmed. At state owned companies, there are 21 statistically stronger correlations than at private companies. Here are valid the set conclusions. According to the results in Table 7, these findings are most pronounced at FP1 - Productivity and FP - Financial Performance in total (dimension). At the same time, as at the previous moderator, this result is consistent with the results of the basic correlation analysis (Table 2). Among the dimensions of leadership, where there is a significant effect of the moderator effect of Company ownership structure, strongly distinguish L1 - Core Transformational Leader Behavior and L4 - Intellectual stimulation. The pronounced impacts of the dimensions L1 - Core Transformational Leader Behavior on financial indicators at state owned companies, can be understood in accordance with the explanations given in the analysis of both moderators: Serbian state-owned companies have less stable strategy and vision, and any change (positive or negative) has a greater impact on the overall performance . When it comes to size L4 - Intellectual stimulation, its influence at state owned enterprises on the financial indicators can be understood as follows: in private enterprises more attention is paid to the work activities of the company, in other words, to the owner of the company (director) it is not important what degree has his employee, but what and how he can do. On the other hand, at state-owned companies the formal education is more important (primarily through the function and salary), and the employee is more stimulated for further progress. This leads to a higher concentration of knowledge in the companies, but also to increased job satisfaction of employees, and the result of all this appears in a positive impact on financial performances.

In private companies, there are only two correlations that are statistically more stronger than in state owned ones. These two correlations are between L3 - Supportive Leader Behaviour to FP1 - Productivity and L3 - Supportive Leader Behaviour to FP - Financial Performance. It is obvious that the influence of the L3 - Supportive Leader Behaviour dimension is the exception in this analysis. It is a dimension of leadership with a minimum score (Table 2). Generally speaking, the leaders support is often absent. However, at state-owned companies, employees are somewhat " lulled" and "spoiled" and the support of leaders is considered as "something normal" and "something that implies". In contrast, employees in private companies earn the leaders support harder, so they appreciate it more. This support, either leads to better financial performance or it was created precisely as a result of satisfaction of the owner with the business performances (financial performances). However, this relation is more pronounced in the private companies. In addition, a strong correlation between Contingent Reward Behaviour and Employee Salaries should not go unobserved. This can be explained in the following way: in private companies in Serbia, rewards are mostly expressed in material terms, through salaries and other forms of monetary income.

The obtained moderations may be observed from another angle. It was stated in the introduction that some studies support the increased influence of leadership under conditions of crisis, uncertainty and change (Waldman et al., 2001; House et al., 1991). There is an analogy to the findings presented here, where higher uncertainty appears in Serbian and state-owned companies. Uncertainty appears as a result of transitional conditions, changes in the environment, competitive position and employee standard of living. Serbian and state-owned companies are those which suffer the most from such a reality.

## Conclusion

Transactional leadership has a slightly higher share in companies in Serbia in comparison to transformational leadership. Transformational leadership is pronouncedly weaker in the Supportive Leader Behaviour segment, while transactional is weaker in the Contingent Reward Behaviour segment. It can be said that the leaders in the companies in Serbia show low level of supportive behavior and use penalties more than rewards. These are the consequences of a high unemployment rate and low standards of living of employees, who are forced to work under these conditions.

The basic analysis has generally demonstrated that, in companies in Serbia, there is a statistically significant influence of leadership dimensions on financial performance. There

is a link between transformational leadership and financial performance with the exception of the Supportive Leader Behaviour segment. Transactional leadership is related to financial performance, but only in the Contingent Reward Behaviour segment. Based on these findings it is clearly recommended that transformational leaders should improve Supportive Leader Behaviour, while transactional ones should improve the Contingent Reward Behaviour segment. This will lead to better business outcomes.

National origin of companies and Company ownership structure has a moderating effect on some correlations between leadership dimensions and financial performance. Based on the findings it can be concluded that hypothesis H1 is confirmed, while hypotheses H2 and H3 have been confirmed only partially. At Serbian state-owned companies the strongest effect is between the leadership influences on financial performances. These companies have less stable visions and strategic plans, so every impact of leadership, positive or negative, have stronger influence on their financial performances and, consequently this affects the overall business.

The application of the findings depends, in the first place, on the leaders in companies in Serbia. They should develop an awareness of the importance of leadership, and of their own role in business operations and numerous aspects of business, including financial performance. This can be achieved through the education of current, potential and future leaders. This study will contribute to the improvement of leadership in companies in Serbia, and consequentially numerous other aspects of business.

The results obtained in this study are significantly influenced by the transition conditions in Serbia. These conditions are characterized by: high unemployment, fear of job loss, the privatization of state enterprises, entry of foreign companies on the Serbian market, low standard of living, and cheap labor force. A similar situation exists in many countries of Eastern Europe, which are still undergoing the process of transition. Because of this, the results of research on the effect of leadership on financial performances in companies in Serbia can be considered representative for a larger number of countries in Eastern Europe. Therefore, the results presented in this paper are of theoretical, and of practical importance for researchers, top managers and potential investors.

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**ACKNOWLEDGMENT** This paper is a part of the research project „The impact of organizational culture and leadership on some organizational and business performances in companies in Serbia”, which is funded by the Provincial Secretariat for Science and Technological Development within the action „Right for first chance”.



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Editor: ZOLTÁN VERES

Printed in B5 on 7 sheets  
at the OOK-Press Ltd.

Executive director: ATTILA SZATHMÁRY