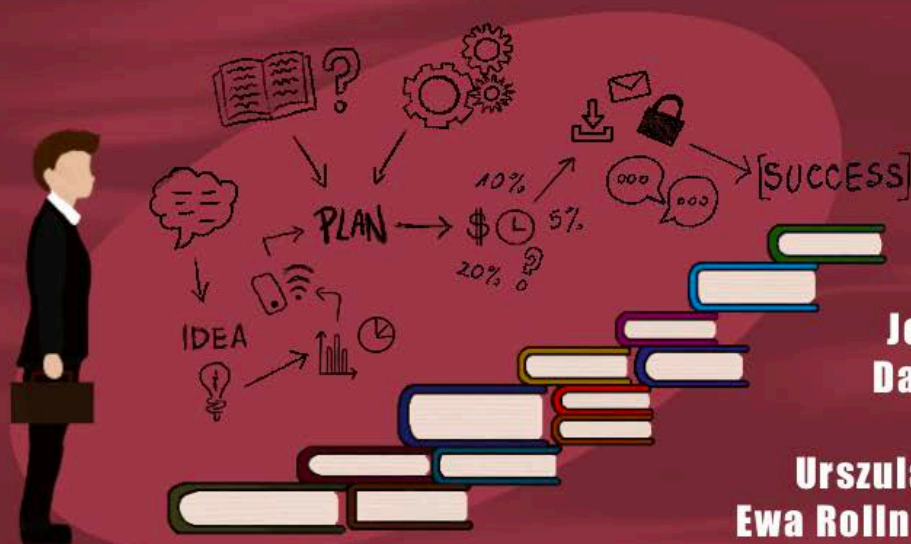


# THEORETICAL AND PRACTICAL ASPECTS OF BUSINESS ACTIVITY

## Starting a business



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# **THEORETICAL AND PRACTICAL ASPECTS OF BUSINESS ACTIVITY STARTING A BUSINESS**

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# Introduction

Entrepreneurship is a key factor for economic growth, improving the competitiveness of countries' economies and increasing social prosperity. Young entrepreneurs face a number of challenges as a result of the rapidly changing socio-economic environment. In their activities aimed at launching a business, young entrepreneurs need knowledge and skills on a wide range of topics related to finance, law, marketing, product management, etc. This is why more and more projects aiming at comprehensive assistance in launching a business are being developed. One of them is the project "Acceleration of Business Support Ecosystem" (ACCESS), which was co-financed under the programme Interreg V-A Lithuania-Poland 2014-2020. ACCESS strengthens entrepreneurial initiatives by improving business support services in Kaunas and Marijampole region on the Lithuanian side, as well as Suwalki and Bialystok sub-regions in Poland.

One of the many results of the project is the creation of two publications on theoretical and practical aspects of setting up and running a business. These publications aim to popularise entrepreneurial attitudes and provide knowledge necessary to achieve success in business. Young entrepreneurs, before embarking on their brave activities, should check where and what funds they can obtain to start or develop their own enterprise. They should gain knowledge about the target group they intend to reach. In addition, they should focus on ways to communicate with the hypothetical recipient. An equally important aspect is to create a team that will work effectively.

This publication consists of three chapters. The first chapter refers to the sources of business financing, the second presents the forms of employment of employees, methods of recruitment and selection, methods of motivation and tools necessary for team building. Chapter three deals with marketing aspects of business activity.

The book is dedicated to young entrepreneurs as well as to those already existing in the market, who constantly have to generate ideas and adapt them to changing market conditions. Hence, anyone who intends to or already conducts business activity will find in this publication some development-stimulating content.

# 1. Sources of business funding

## 1.1. Equity and its types

Conducting business activity is connected with the necessity of possessing by an enterprise of certain assets which is reflected in sources of financing. Regardless of the stage of development, size and nature of business, equity plays a special role among the sources of financing the activities of economic entities.<sup>1</sup> This form of financing, on the one hand, gives investors the right of ownership and the possibility to participate in the distribution of generated profits, but at the same time it also means the necessity to cover incurred losses in proportion to the amount of invested funds.<sup>2</sup>

The particular importance of equity stems from the fact that it is involved in the financing of the enterprise indefinitely, and in the liquidation of the entity it is returned to the donors only after the claims of other creditors have been satisfied. Thus, this type of capital constitutes the most stable source of financing in an enterprise, conditioning its economic strength. Furthermore, equity determines the credibility of a given enterprise<sup>3</sup> and serves as a guarantee to the company's creditors, being a robust basis for financing and a source of creditworthiness.<sup>4</sup> The higher the level of equity in the company's financing structure, the lower the risk of losing financial liquidity and bankruptcy.

Equity can have a variety of origins, i.e. its sources can be both external and internal. Thus, a distinction can be made between:<sup>5,6</sup>

- contributed equity – identified as external financing (e.g. share issues, shareholder contributions, share increases);

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<sup>1</sup> J. Grzywacz, M. Lipski, *Kapitał własny jako źródło finansowania działalności przedsiębiorstw*, "Zeszyty Naukowe PWSZ w Płocku. Nauki Ekonomiczne," 2016, XXIV, p. 116.

<sup>2</sup> A. Skowronek-Mielczarek, *Małe i średnie przedsiębiorstwa. Źródła finansowania*, Wydawnictwo C.H. Beck, Warszawa 2007, p. 20.

<sup>3</sup> J. Barburski, *Kapitały własne jako podstawa bezpieczeństwa działalności gospodarczej na przykładzie przedsiębiorstw WIG20*, "Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia," no. 67, 2014, p. 118.

<sup>4</sup> J. Grzywacz, M. Lipski, *Kapitał..., op. cit.*, p. 116.

<sup>5</sup> A. Duliniec, *Finansowanie przedsiębiorstwa*, PWE, Warszawa 2007, p. 31.

<sup>6</sup> A. Adamska, *Źródła finansowania spółek publicznych w Polsce*, [in:] J. Grzywacz (ed.), *Źródła finansowania działalności rozwojowej przedsiębiorstw w Polsce*, Oficyna Wydawnicza SGH, Warszawa 2016, p. 16.

- generated equity – identified as self-financing (e.g. retained earnings, depreciation, disposal of redundant fixed assets, acceleration of capital turnover).

The double origin of equity capital stems from the fact that the cash generated by the enterprise itself may not be sufficient. Increasing equity in this way improves the financial credibility of the company, makes it easier to overcome possible payment difficulties and increases the chances of obtaining external capital in the future.<sup>7</sup>

Choosing the sources of financing, including the scale of equity participation, as well as the availability of various other solutions depend on a number of macro- and microeconomic factors.

In the case of the macroeconomic aspects, these include primarily such factors as:<sup>8</sup>

- the situation and prospects for development of the industry represented by the company;
- the economic situation – the phase of the cycle;
- the level of inflation;
- taxation system.

The industry represented by a given entity determines to a large extent its asset structure, which also overlaps the level of equity. For example, entities from the construction or industrial sector are usually characterised by a higher share of fixed assets in total assets and the financing equity in total liabilities than it is the case of companies operating in the service or trading sector. The economic situation has a significant impact on the planned investments of enterprises and on the size of current assets, contributing to an increase in profits. On the other hand, a high level of inflation means the necessity to incur high costs of debt servicing, hence, in such a case one should expect a tendency to their reduction on the part of economic entities and an increase in the share of own capital, instead of financial liabilities. In turn, a high tax rate stimulates economic entities to build a tax shield.

Microeconomic criteria include a group of specific factors directly related to the enterprise in question, such as:<sup>9</sup>

- cost of used capital;
- current level of indebtedness as expressed by the debt-to-equity ratio;
- the way in which financial commitments are secured;
- the degree of freedom to decide on the use of funds;
- the speed of obtaining funds;
- the formalisation degree of procedures accompanying the raising of funds;
- the effect of financial leverage;
- profitability of the resources and profitability of the company's operations;

<sup>7</sup> W. Bień, *Zarządzanie finansami przedsiębiorstwa*, Difin, Warszawa 2008, p. 158.

<sup>8</sup> J. Grzywacz, *Kapitał w przedsiębiorstwie i jego struktura*, Oficyna Wydawnicza SGH, Warszawa 2012, p. 18.

<sup>9</sup> J. Grzywacz, *Kapitał...*, *op. cit.*, p. 18.



- financial risks;
- financial flexibility of the company in the future;
- the relationship between the company's cash flow and planned debt and the ability to service it.

Equity can be divided into three groups:<sup>10</sup>

- entrusted capital, i.e. capital contributed by the founder(s) of an economic entity;
- self-financing capital, i.e. capital arising from the accumulation of surpluses (profit) of economic activity for development purposes;
- revaluation reserve.

Depending on the organisational and legal form, the entrusted (core) capital may exist in various forms and the self-financing capital may consist of different volumes.

## 1.2. Outside capital and its types

When a company does not have enough of its own cash to cover its expenses, it looks for additional sources of financing. One of the possibilities offered by the market is outside capital. It is a outside source of financing for property resources, which have been placed at the disposal of an enterprise for a specified period of time. Such funding is always external to the company. Debt capital is characterised by: temporariness of its use, need for repayment within a specified period of time and payment for the possibility of its use.<sup>11</sup>

The advantage of such a solution is that if any additional costs arise, for example interest, the company can recognise them as a business expense. While the organisation has more tax-recognised costs, this affects the amount of income tax. In addition, it impacts the efficiency of the company and can improve the leverage effect (raising the return on equity as a result of using outside capital). The disadvantage of reaching for outside capital is that it requires meeting certain conditions, which are often not achievable by companies, as well as additional security in case of problems related to the solvency of a business entity.<sup>12</sup>

Skilful use of outside capital makes it possible to increase the scale of profits obtained by the enterprise, and thus to maximise the scale of owners' benefits. This is one of the reasons why entrepreneurs find support by means of alternative sources of financing in the form of outside capital.<sup>13</sup>

<sup>10</sup> J. Barburski, *Kapitały własne...*, *op. cit.*, p. 119.

<sup>11</sup> Ceny Transferowe, <https://cenytransferowe.org/slownik/kapital-fundusz-obcy/>, [17.01.2021].

<sup>12</sup> D. Ostrowska, *Źródła finansowania działalności a sprawozdawczość przedsiębiorstw działająca w Polsce*, Difin, Warszawa 2014, pp. 105–106.

<sup>13</sup> J. Grzywacz, *Kapitał...*, *op. cit.*, p. 16.

The literature describes many types of outside capital financing sources. M. Daniluk indicates one of the most interesting and at the same time the most extensive classification. According to him, there are twelve types of outside capital on the market. These are:<sup>14</sup> bank credits, loans, leasing, factoring, debt securities, franchising, strategic investors, forfaiting, venture capital, business angels, credit insurance and subsidies.

### Bank credit

Bank credit is the most widespread form of debt financing for business entities. It plays a fundamental role in stimulating the economic activity of all entities participating in the market. If a given economic operator decides to take on a financial commitment for investment, or start or expand a business, it is essential to know the types of credit and the range of products offered by banks<sup>15</sup> as well as cooperative savings and credit unions.<sup>16</sup>

A bank credit is a written agreement between a bank and a borrower. In the domestic banking system there is no single comprehensive, uniform division or nomenclature of credits granted by banks. The parties to the contract may themselves decide on the form of the contract and the form of the credit. However, due to the essential elements that credit agreements should contain, several types can be distinguished and credits can be classified according to certain criteria.<sup>17</sup>

Creditworthiness means the ability to repay a loan with interest on the dates specified in the agreement. As regards business entities, creditworthiness characterises those companies whose assets and the level of financial effectiveness of their business activity provide full security for the fulfilment of their obligations not only towards the bank, but also towards all creditors. Referring to the general concept of creditworthiness, it should be mentioned that in this respect banks, granting credits to economic entities, have a lot of freedom in establishing the main factors determining the amount of a credit that can be taken.<sup>18</sup>

It should be noted that these factors depend both on the type of bank which grants the credit, the type of credit itself and the entity which applies for it. In characterising creditworthiness, two types of assessment should be enumerated. Namely, in almost every case, the bank analyses both quantitative (measurable) and qualitative

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<sup>14</sup> M. Daniluk, *Źródła finansowania rozwoju małych i średnich (teoria i praktyka)*, Oficyna Wydawnicza im. prof. Leszka Krzyżanowskiego WSM Warszawa i Wydział Zarządzania w Ciechanowie, Scientific Journal, 2013, 1–4 (VII), p. 36.

<sup>15</sup> K. Koziół, R. Pitera, *Kredyt bankowy jako podstawa zewnętrznego finansowania małych i średnich przedsiębiorstw sektora usług*, "Prace Komisji Geografii Przemysłu Polskiego Towarzystwa Geograficznego" 2018, 32 (2), pp. 152–163.

<sup>16</sup> I. Próchicka-Grabias, A. Szelałowska, *Finansowanie działalności gospodarczej w Polsce. Wybrane aspekty*, CeDeWu, Warszawa 2006, p. 14.

<sup>17</sup> Narodowy Bank Polski (NBP), *Kredyt bankowy jako źródło finansowania działalności*, Projekt "Przedsiębiorczość w praktyce," Rzeszów 2015.

<sup>18</sup> K. Koziół, R. Pitera, *Kredyt bankowy...*, *op. cit.*, p. 155.

(non-measurable, the outcome of which depends on the bank's individual approach and the adopted evaluation criteria) factors. The bank then assesses these factors as a whole, and on this basis determines creditworthiness.

TABLE 1.1. Types of credit according to selected criteria

Criterion	Types of credit
Subject (intended use)	<ul style="list-style-type: none"> <li>• revolving credit</li> <li>• investment loan</li> </ul>
Financing period	<ul style="list-style-type: none"> <li>• short-term</li> <li>• medium-term</li> <li>• long-term</li> </ul>
Form of credit	<ul style="list-style-type: none"> <li>• current account overdraft facility</li> <li>• credit account overdraft facility</li> <li>• discount credit</li> <li>• acceptance – one-off credit</li> <li>• relating to the purchase of invoices</li> <li>• in the form of a non-revolving and revolving credit line</li> <li>• bridge loan</li> </ul>
Interest rate	<ul style="list-style-type: none"> <li>• fixed interest rate</li> <li>• floating interest rate</li> <li>• fixed floating interest rate</li> </ul>
Preference	<ul style="list-style-type: none"> <li>• commercial</li> <li>• preferred</li> </ul>
Method of credit repayment (principal and interest)	<ul style="list-style-type: none"> <li>• in fixed or floating capital instalments</li> <li>• annuity loans</li> <li>• loans where interest is paid upfront or in arrears</li> </ul>

SOURCE: K. Koziół, R. Pitera, *Kredyt bankowy jako podstawa zewnętrznego finansowania małych i średnich przedsiębiorstw sektora usług*, "Prace Komisji Geografii Przemysłu Polskiego Towarzystwa Geograficznego" 2018, 32 (2), pp. 152–163.

Referring to the above elements, it should be stressed that – regardless of the type of bank – every bank must comply with the binding regulations resulting from the banking law and various regulations or recommendations. It is enough to mention recommendations of the Polish Financial Supervision Authority (KNF), which, as an entity performing a supervisory function, reacts to situations occurring in the financial market and may issue appropriate regulations limiting or prohibiting the granting of certain types of loans or, more broadly, banking products (not only bank credits).<sup>19</sup>

A credit can only be granted by banks. The term means an amount of money that a financial institution provides to a borrower for a period of time specified in an agreement. As already mentioned, a credit agreement should be drawn up in writing. It must

<sup>19</sup> K. Koziół, R. Pitera, *Kredyt bankowy...*, *op. cit.*, p. 155.

contain elements such as the amount, the terms and date of repayment of the credit, the interest rate (and the conditions for changing the interest rate), and the amount of the commission. The amount owed should be repaid within the time limit set out in the above document, together with interest. This is regulated by the Consumer Credit Act. A consumer may obtain a credit after a positive verification of his or her creditworthiness. This means that the potential borrower has the ability to pay the instalments every month. Creditworthiness determines the amount of the borrowed sum.<sup>20</sup>

## Loans

A loan is a broader concept than a credit. It can be granted not only by a financial institution but also by a natural person. It is important that the borrowed money (or objects) must belong to the lender and not to third parties. The rules for granting loans are set out in the Civil Code. Lending companies must also operate in accordance with the Consumer Credit Act. To receive this type of financial support, it is not necessary to state the purpose for which the money is to be spent. What is more, under Polish law, loans not exceeding PLN 500 do not have to be concluded on the basis of a contract. The money may be given back on the basis of rules to be established between the lender and the borrower. The document should be signed only in the case of borrowing an amount or objects of a value exceeding PLN 500.<sup>21</sup>

In Lithuania, when concluding a loan, a written agreement is required if the obligation exceeds the amount of EUR 579.24. If the lender is a legal person, a written agreement is always required, regardless of the amount of the loan.<sup>22</sup>

A loan differs from a credit – see table 1.2. The first difference between a credit and a loan involves the entity providing financial support. In case of credit facility, this is exclusively a bank, whereas a loan is granted by an institution or an individual. The purpose of the received money must be specified by the borrower. The borrower, on the other hand, may spend the received amount or use the borrowed items for any purpose, which he or she is not required to provide. Another difference between a credit and a loan is the way it is regulated. Information on granting a credit can be found in the Banking Act, while a loan – in the Civil Code. Another very important element that differentiates these two ways of raising outside capital is the type of contract. The borrower and the lender are obliged to sign a contract, which contains information about, among other things, the term and costs of the commitment. However, in case of a loan of less than PLN 500, there is no need to conclude an agreement. Such a document should be drawn up when the value of the money or borrowed items exceeds that amount. There are always fees associated with a credit,

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<sup>20</sup> *Kredyt a pożyczka – najważniejsze informacje i różnice pomiędzy nimi*, <https://www.money.pl/gospodarka/wiadomosci/artykul/kredyt-a-pozyczka---najwazniejsze-informacje,166,0,2397094.html>, [20.01.2021].

<sup>21</sup> *Ibidem*, [20.01.2021].

<sup>22</sup> *Commercial lending and repurchase*, <https://www.sulijapartners.com/lending-and-repurchase,> [01.04.2021].

such as commission and interest, whereas a loan may be free. A credit also differs from a loan in the form of ownership of the transferred capital. The borrower receives the capital at his or her disposal, but it does not become his or her property. A loan, on the other hand, is owned by the borrower. It is also important to note that the institution granting a credit may lend money that is not its own, whereas the person granting a loan may only dispose of the capital that he or she owns.

TABLE 1.2. Differences between a credit and a loan

Criterion	Loan	Bank credit
Range of control	The Civil Code	The Bank Act
Contractual parties	Apart from a bank, a loan may also be granted by another non-bank institution	The lender may only be a bank
Subject	Cash or goods of a kind	Cash only
Purpose of funding	No need to specify	Need to indicate the purpose of the credit
Interest rate	Not required	Required
Premise for the conclusion of the contract	Mutual consent of the contracting parties	Need to verify the borrower's creditworthiness
Restrictions on granting	No statutory restrictions	Restrictions on debt concentration with a single borrower

SOURCE: B. Baran, K. Biernacki, A. Kowalska, A. Kowalski, *Leasing, kredyt, faktoring jako formy finansowania przedsiębiorstw: analiza porównawcza i korzyści dla przedsiębiorcy*, Difin, Warszawa 2016, pp. 43–44.

## Leasing

When applying for a bank loan, problems may arise in obtaining this source of capital. One alternative for obtaining external funds is leasing. If a company lacks sufficient capital to purchase machinery, a car or real estate, this is a suitable tool for obtaining the items in question.<sup>23</sup> Leasing is understood as a certain form of trading in the fixed assets of a company and is classified as a long-term form of financing.<sup>24</sup>

Leasing is a civil law contract between a lessor (financing party) and a lessee (user). The lessor is usually a specialised institution that concludes the leasing contract with the lessee. The lessee is a participant in the transaction and must fulfil certain conditions in order to possess the lessor's asset.<sup>25</sup> In the simplest terms, leas-

<sup>23</sup> D. Ostrowska, *Źródła...*, *op. cit.*, p. 122.

<sup>24</sup> J. Grzywacz (ed.), *Finanse przedsiębiorstwa. Ocena działalności gospodarczej*, Oficyna Wydawnicza SGH, Warszawa 2019, p. 21.

<sup>25</sup> M. Dycha, *Leasing*, [w:] E. Wrońska-Bukalska (ed.), *Finansowanie działalności przedsiębiorstwa: aspekty podatkowe księgowo i finansowe*, Difin, Warszawa 2016, p. 131.

ing is similar to long-term rental or hire purchase. In essence, the leasing company releases an asset to the lessee in return for a contractually agreed monthly payment. A leasing agreement is signed for a fixed period.<sup>26</sup>

What distinguishes leasing from hire purchase is the fact that throughout the period of the contract the lessee has the possibility to use fixed assets or real estate without being their owner. The difference between leasing and hire purchase is the initial payment (which determines, among other things, the number of instalments) and the right to buyout at a predetermined price. This means that after the expiration of the contract, the lessee can buy the object of the lease for a pre-agreed amount.<sup>27</sup>

The literature classifies are many categories of leasing. These vary depending on what is leased, as well as how the contract is structured, who may be a party to it and what rights and obligations both parties have in relation to the leased object – see table 1.3.

TABLE 1.3. Types of leasing according to selected criteria

Criterion	Types of leasing
Legal and fiscal nature of the agreement	<ul style="list-style-type: none"> <li>• financial</li> <li>• operational</li> </ul>
Number of parties involved in the transaction	<ul style="list-style-type: none"> <li>• direct</li> <li>• indirect</li> </ul>
Lessee status	<ul style="list-style-type: none"> <li>• dedicated to entrepreneurs</li> <li>• consumer leasing</li> </ul>

SOURCE: *Co to jest i na czym polega leasing?*, <https://www.vivus.pl/moje-finanse/poradnik-pozyczkobiorcy/co-to-jest-i-na-czym-polega-leasing/#gref>, [21.01.2021]; Europejski Fundusz Leasingowy S.A., *Rodzaje leasingu – charakterystyka i porównanie*, <https://efl.pl/pl/biznes-i-ty/artykuly/rodzaje-leasingu/>, [31.01.2021].

The most common division of leasing is based on the legal and fiscal nature of the contract. A distinction is made here between financial leasing and operating leasing.<sup>28</sup> The difference between these forms depends on which fixed asset is included in the leased item. In financial leasing, the item is included in the lessee's assets. This means that if an entrepreneur takes a car under financial leasing, he or she is obliged to record it in the fixed assets register. In this case, the lessee may include additional costs, such as interest, as tax-deductible expenses. He or she also includes the depreciation of the asset. Financial leasing is similar to hire purchase, although the lessee does not become the full owner of the asset until the end of the contract.

<sup>26</sup> *Co to jest i na czym polega leasing?*, <https://www.vivus.pl/moje-finanse/poradnik-pozyczkobiorcy/co-to-jest-i-na-czym-polega-leasing/#gref>, [21.01.2021].

<sup>27</sup> *Ibidem*, [21.01.2021].

<sup>28</sup> M. Dycha, *Leasing...*, *op. cit.*, p. 129.

This occurs automatically when the last instalment is paid, as the total leasing amount covers the economic value of the object. In this variant, the lessor must pay the VAT in full already at the moment of signing the contract.<sup>29</sup>

Operating leasing is a more common option, more akin to renting. In operating leasing, the object is included in the lessor's assets. In this case, the lessee deducts the entire incurred value, including finance costs in the form of interest as well as capital instalments.<sup>30</sup> The total amount paid by the lessee during the term of the contract does not cover the value of the object, so the parties agree on an initial payment and a redemption payment. VAT is paid in instalments.

Another division of leasing is direct and indirect leasing. In direct leasing, the manufacturer leases its product to the customer. In indirect leasing, the lessee signs a contract with a leasing company (or, for example, a bank offering such an option) which purchases the item from the manufacturer.

It should be noted that this type of financing may also be used by natural persons not conducting business activity. It is them for whom consumer leasing was created. It is a civil law agreement which has features of a credit and a lease. It allows consumers to lease such items as a car, a washing machine, a TV set, a refrigerator, furniture or a flat. They can use them without having to contribute their own money. They sign a contract with the lessor, obliging themselves to pay monthly instalments by means of which they repay the value of the leased item. Consumer leasing is subject to far fewer formalities than a credit. It can be used by people who do not have high creditworthiness. This type of leasing allows consumers to avoid repairs, technical inspections or insuring a car themselves. The leasing company takes on these responsibilities and bears the necessary costs if the user chooses an offer with a package of additional services.<sup>31</sup>

## Factoring

Factoring is a useful tool if a company wants to pay its vendors for goods or services on time, but does not have enough cash. It is a way to prevent payment bottlenecks – it provides financing for current operations and improves the company's liquidity. Thanks to factoring, an entrepreneur can pay his or her liabilities on time or before their due date.<sup>32</sup>

There are three parties involved in this type of financing. The first is the entrepreneur – the seller, i.e. the seller of his or her receivables. As a client of the factoring company, it sends invoices issued to its contractors for processing. The second participant is the factor, i.e. the financial institution. It may be a bank or another specialised

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<sup>29</sup> *Co to jest i na czym polega leasing?...* op. cit. [21.01.2021].

<sup>30</sup> J. Grzywacz (red.), *Finanse przedsiębiorstwa...*, op. cit., p. 21.

<sup>31</sup> Europejski Fundusz Leasingowy S.A., *Rodzaje leasingu – charakterystyka i porównanie*, <https://efl.pl/pl/biznes-i-ty/artykuly/rodzaje-leasingu/>, [31.01.2021].

<sup>32</sup> *Faktoring – wszystko, co powinieneś wiedzieć na temat usług faktoringowych*, <https://faktoria.pl/porada/faktoring>, [21.01.2021].

company dealing with factoring services. It purchases the receivables from the seller, i.e. it is an intermediary between the other participants in the transaction. The factor then transfers funds to the entrepreneur's account in the form of an advance (about 80–90% of the invoice value).<sup>33</sup> The last entity is the counterparty – the debtor, i.e. the entity having a liability towards the supplier of goods.<sup>34</sup> He or she is obliged to pay the invoice within a specified period.

Factoring involves a company selling its receivables from its recipients to financial institutions in order to receive the receivables on time. The given institutions then pay for given liabilities towards the given company, while the receivables of the recipients are transferred to that financial institution.<sup>35</sup> In practice, the client submits invoices of his or her choice to the factor before their due date. The factor finances the client's invoices, i.e. pays the funds for the invoices directly into the client's business account. The client is obliged to pay the invoice to the factor's account.

Several categories of factoring services can be distinguished. Each of them may occur separately, but they may also be combined with each other – see table 1.4.

TABLE 1.4. Types of factoring according to selected criteria

Criterion	Types of factoring
Nature of the obligation	<ul style="list-style-type: none"> <li>• receivables</li> <li>• debt</li> </ul>
Assumption of the risk of counterparty insolvency	<ul style="list-style-type: none"> <li>• full</li> <li>• partial</li> <li>• mixed</li> </ul>
Time of notification of the debtor on the factoring agreement	<ul style="list-style-type: none"> <li>• open</li> <li>• secret</li> <li>• semi-open</li> </ul>
Use of factoring services	<ul style="list-style-type: none"> <li>• single</li> <li>• global</li> <li>• factoring limit</li> </ul>
Nature of cooperation with counterparties	<ul style="list-style-type: none"> <li>• domestic</li> <li>• international</li> </ul>
Time of receiving payment for the sold receivable	<ul style="list-style-type: none"> <li>• discount</li> <li>• advance</li> <li>• maturity</li> </ul>

SOURCE: *Faktoring – wszystko, co powinieneś wiedzieć na temat usług faktoringowych*, <https://faktoria.pl/porada/faktoring>, [21.01.2021].

<sup>33</sup> *Faktoring – wszystko..., op. cit.* [21.01.2021].

<sup>34</sup> E. Krzysztosń, *Faktoring*, [in:] E. Wrońska-Bukalska (ed.), *Finansowanie działalności przedsiębiorstwa: aspekty podatkowe księgowo i finansowe*, Difin, Warszawa 2016, pp. 172–173.

<sup>35</sup> *Ibidem*, pp. 21–22.



With regard to the nature of the liability, we can distinguish receivables and debt factoring. In receivables factoring (which can be divided into purchase and sale factoring), the entrepreneur sends invoices to a factor which transfers 80–90% of their value to the account of the client. The factor purchases the receivable and the client must pay it back. Debt factoring (reverse factoring) is when an entrepreneur enters into a debt with a factoring company that must be repaid within a certain period of time. This type of factoring is also called reverse factoring. Reverse factoring is a service in which the entrepreneur indicates to the factor the entities supplying him or her with products, goods or services that will be able to use such a form of financing. In this model of factoring, the suppliers receive due funds from the factor when the entrepreneur presents him or her with an invoice and confirms that he or she has fulfilled all agreed terms of the order. The factor then pays the invoice redemption amount plus interest to the factor within a contractually agreed period. This way, the entrepreneur can order more products or services that he or she needs for the proper functioning of the company without paying for them at once.<sup>36</sup>

With regard to the assumption of the risk of counterparty insolvency, factoring can be divided into full, partial and mixed. Full factoring (non-recourse factoring) transfers full responsibility for the supplier's insolvency to the factor. If the entrepreneur receives an advance payment from the factor (80–90% of value) and the factor does not receive payment from the counterparty, the entrepreneur does not incur any costs and does not have to return the advance payment when the invoice is non-recourse. For this reason, it is the most expensive factoring service on the market. However, when the invoice is in recourse, the entrepreneur can pay for the financing. Only after about 6 months does the insurer pay the funds. Typically, such high-risk factoring transactions are additionally secured by receivables insurance. Then the factor receives the money from the insurer or commissions the collection of receivables. Non-recourse factoring is a service in which the factor buys the receivables from the supplier but is not responsible for the supplier's insolvency. If the debtor fails to make payment to the factor, the entrepreneur will be obliged to pay. Factoring companies, on their part, very often offer the client assistance in recovering the receivables. Mixed factoring is a service that includes elements of both full factoring and partial factoring. The factoring company agrees on an amount up to which it is liable for the debtor's insolvency. If the amount is exceeded, the liability falls on the entrepreneur, who must pay the invoice.<sup>37</sup>

Another classification criterion is the moment of notifying the debtor on the concluded factoring agreement. Here we can distinguish open, secret and semi-open factoring. In open factoring, one of the parties to the factoring agreement must immediately notify the debtor about the assignment of the receivables and about the payment of liabilities to the factor's account. Open factoring is the most popular and the cheapest factoring service in Poland. With this model, factoring companies can verify

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<sup>36</sup> *Faktoring – wszystko..., op. cit.*, [21.01.2021].

<sup>37</sup> *Faktoring – wszystko..., op. cit.*, [21.01.2021].

their contractors so that the risk of insolvency is as low as possible, and the quality of the cooperation with the debtor is recorded in databases shared by all factoring companies on the market. By these means, the counterparty will certainly be more disciplined when it comes to paying his or her liabilities on time. An important issue when choosing open factoring for entrepreneurs may be the possibility to include this service in their tax deductible expenses. Factoring services in Poland are subject to a 23%-rate VAT. Silent factoring means that the client is not informed about the assignment of the liability. If the debtor pays the receivables to the entrepreneur's account, he or she must transfer the receivables to the factor. Entrepreneurs often choose this type of factoring for quite simple reasons. Usually company owners are afraid of their client's reaction to the assignment of receivables. They also want to avoid providing them with information on this subject or are terrified of dealing with formalities. In fact, factoring positively influences the assessment of the supplier, because before signing a factoring agreement, the factor thoroughly verifies the financial situation of the entrepreneur. What is more, the factor usually takes care of all the paperwork and notifying the counterparty of the assignment. Silent factoring is useful when a company needs fast financing and the counterparty has a contractual prohibition on the assignment of claims. Increasingly, local government units do not want to agree to such an assignment. This type of factoring is usually used in the commercial sector. Semi-open factoring occurs when the debtor only learns about the factoring agreement when he or she receives a notice on payment from the factor.

With regard to the manner in which factoring services are used, single factoring, global factoring and factoring limit are distinguished. Single factoring occurs when the entrepreneur provides the factor with financing only for invoices of his or her choice. This is an ideal solution when the business owner wants to use factoring services from time to time. Global factoring is when the entrepreneur provides for financing all the invoices from customers that have been entered into a factoring agreement. The factoring limit differs in one way from the global factoring. Before signing a contract with an entrepreneur, the factor carefully checks the entrepreneur's financial situation and then grants a certain limit for financing invoices. The factor will not verify the client in any way up to an agreed limit. However, the situation is different when the contractors are considered unreliable payers (the factor gets to know the debtors later, after the agreement has been signed with the factor and the factor has reported the clients). Then one can expect a refusal to finance the invoices, despite an agreed limit.

Another criterion is the nature of cooperation with the counterparties and, within this framework, domestic and international factoring are distinguished. Domestic factoring can be used by companies that cooperate with their business partners from the same country. This service allows for an efficient flow of money, by releasing "frozen" cash in invoices. This is the so-called invoice financing. In Poland, this method saves an entrepreneur the need to wait 60 or even 120 days for a contractor to pay the liabilities, instead, he or she receives funds immediately after the invoice is issued from his or her factor. Everything is based on the factoring company taking over

the receivables and transferring them to the account of its client. The entrepreneur can then pay off his or her current debts ahead of schedule without spending additional money. Domestic factoring is a good option for manufacturing companies that have a high level of receivables, and therefore may have problems with working capital for current operations. International factoring is designed for companies that want to grow and send their products and services abroad or import them to Poland. Therefore, we distinguish export factoring, which involves selling products to foreign markets, and import factoring, which involves companies importing goods from foreign markets into Poland. In case of exports, receivables factoring is very useful, as in other countries one may encounter very extended payment terms for invoices. However, if the business relies on imports, factoring will ensure the credibility and solvency of the Polish importer. It should be noted that currently most international factoring transactions are carried out with the participation of two factors. Factoring in such an arrangement ensures the fastest and most effective factoring operation. Both the export factor and the import factor are involved in the transaction. The export factor assigns receivables purchased from the exporter to the import factor, who in this way acquires the right to receive payment for the transaction from the importer. The import factor then transfers the payment to the export factor, so that the latter can finally settle accounts with the entrepreneur. If the foreign client defaults on his or her payment, the import factor still pays the export factor and begins collection.<sup>38</sup>

Depending on the time of receiving payment for the sold receivable, discount factoring, advance payment factoring and maturity factoring are distinguished. In discount factoring, the factor takes over the claims at the time the factoring agreement is signed. The date of payment of the receivable by the counterparty is irrelevant here. In advance factoring, the factor pays the entrepreneur an advance on the receivable. The rest of the amount is transferred to the client's account when the debtor pays the invoice. Maturity factoring occurs when the entrepreneur receives the amount from the sale of the receivables only after the debtor has paid the receivable to the factor.<sup>39</sup>

According to Krzysztoń, factoring helps to ensure good financial liquidity, due to the fact that you will receive from the factor the opportunity to pay your suppliers in advance.<sup>40</sup> The main advantages of factoring are the safety of the transaction and the certainty of maintaining financial liquidity, which are of great importance in running own business.

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<sup>38</sup> *Faktoring – wszystko..., op. cit.*, [21.01.2021].

<sup>39</sup> *Ibidem*, [21.01.2021].

<sup>40</sup> M. Dycha, *Leasing..., op. cit.*, p. 131.

## Debt securities

Another form of debt capital financing is debt securities. The securities instrument involve bonds. A bond is a certain document confirming that you have an obligation in a certain amount and to repay this obligation on a certain date.<sup>41</sup> Bonds are based on the fact that they are taken out by investors who own the bonds. Investors are called bondholders. The issuer, on the other hand, is the person who issues the security.<sup>42</sup>

Financial instruments with a maturity of up to one year are traded on the money market. These instruments include short-term debt securities, including:

- short-term corporate debt securities;
- treasury bills;
- deposits.

The capital market involves trading in, inter alia, medium- and long-term securities. On this market, bonds and shares issued by joint-stock companies or limited joint-stock partnerships are sold and bought. In this way, a company with such a legal entity can increase the funds at its disposal to finance its investment activities.<sup>43</sup>

Joint-stock companies have the right to issue securities, i.e. shares. Other companies, on the other hand, issue company shares. In both cases, issuance increases the company's share capital, which is a type of short-term external financing. Issuance of shares in a joint-stock company may be addressed to existing shareholders or to all investors potentially interested in acquiring shares.

In the literature, bonds are considered under different criteria. One of the criteria is the type of issuer. Here one can distinguish treasury bonds, where the issuer is the State Treasury, municipal bonds issued by local government associations and commercial bonds, where the issuer is the investor. With regard to the method of interest, the following types of bonds can be enumerated:<sup>44</sup>

- fixed-rate;
- floating rate;
- index-linked – with a guarantee of interest payment;
- zero coupon (discounted) – no interest is paid.

Another criterion is the maturity of the bond. In this case a distinction is made between short-term bonds (up to 5 years), medium-term bonds (5–10 years) and long-term bonds (over 5 years).<sup>45</sup>

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<sup>41</sup> J. Grzywacz (ed.), *Finanse przedsiębiorstwa...*, op. cit., pp. 19–20.

<sup>42</sup> Art. 4 of the Law on Bonds dated 15 January 2015, Dz. U. 2015 item 238 as amended.

<sup>43</sup> *Finansowanie z udziałem krótkoterminowych papierów wartościowych*, <https://www.biznes-firma.pl/finansowanie-z-udzialem-krotkoterminowych-papierow-wartosciowych/27151>, [21.01.21].

<sup>44</sup> J. Grzywacz (ed.), *Finanse przedsiębiorstwa...*, op. cit., p. 20.

<sup>45</sup> B. Słowik, *Emisja obligacji jako źródło finansowania działalności podmiotów gospodarczych*, Uniwersytet Marii Curie, Zakład Analiz Rynkowych, XLVIII (2), 2014, p. 103.

## Franchising

The Polish Franchise Organisation defines franchising as a permanent, contractual relationship between the franchisor and the franchisee. This relationship results from the obligation of the franchisor to provide the franchisee with know-how on an ongoing basis throughout the term of the agreement. At the same time, the franchisee is obliged to pay franchise fees or other benefits to the franchisor, depending on the agreement between the parties. Additionally, the following characteristics of franchising are emphasised: economic, legal and organisational independence of the franchisee from the franchisor.<sup>46</sup>

Franchising is a long-term form of cooperation between enterprises. It consists in one entrepreneur making his or her image available to another entrepreneur in such a way that the business activity of the franchisee is carried out under the brand of the franchisor.<sup>47</sup> According to Stawicka, franchising “is not a business, but it is a way to do business. It is an essential marketing concept – an innovative way to distribute goods and services.”<sup>48</sup> With franchising, the entrepreneur is able to start a business that already has a certain image in the market and a range of customers.

If an entrepreneur decides to cooperate in the form of franchising, he or she will receive a from the franchisor a franchise package which belongs to the franchise system. This package usually includes permission to use patents, copyright and trademarks, know-how (concepts, techniques, forms, ICT systems, sales tools, marketing materials, manner of organising the franchise network and units, etc.) and other industry-specific elements and training information. The franchise package consists of the franchisor’s trademark, proven knowledge on how to run the business, an operations manual that includes procedures, services provided by the franchisor and fees to be paid by franchisees.<sup>49</sup>

The franchisor is the owner or holder of the trademark and other indications (logos, symbols, etc.) and authorises the franchisee to use them.

Know-how is the unique knowledge on how to conquer and expand markets, how to compete effectively in a given industry or segment, and how to solve business problems in practice. Within the know-how – usually described in the so-called operational manual – the franchisee receives in particular: the original market offer (product, service), process descriptions, operation schemes, business methods as well as practical techniques and procedures regarding all aspects of the franchise unit’s operation.<sup>50</sup>

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<sup>46</sup> M. Keskin, *Trendy rozwojowe franchisingu w Polsce i Europie*, „Ekonomia Międzynarodowa” 2016, 13, p. 55.

<sup>47</sup> M. Gębczyńska, *Franchising jako sposób rozwoju małego przedsiębiorstwa*, „Zeszyty Naukowe Politechniki Śląskiej,” 1909, 2014, p.133.

<sup>48</sup> M.M. Stawicka, *Franczyza – droga do sukcesu*, <https://pdf.helion.pl/franch/franch-2.pdf>, [28.11.2020], s. 65.

<sup>49</sup> J. Wrzesińska-Kowal (red.), *Franczyza jako alternatywa tradycyjnego handlu*, „Handel Wewnętrzny” 2017, s. 398.

<sup>50</sup> J. Staniewicz, P. Szczepkowski, *Jak wybrać franczyzę edukacyjną*, [https://edukido.com.pl/wp-content/uploads/2019/05/Jak\\_wybrac\\_franczyza\\_educacyjna\\_e-book-2019.pdf](https://edukido.com.pl/wp-content/uploads/2019/05/Jak_wybrac_franczyza_educacyjna_e-book-2019.pdf), [24.01.2021].

The franchise fee consists of financial allowances for the franchisor, generally divided into an initial fee and ongoing monthly fees, and sometimes also special funds such as a marketing fund.

There exist several factors that encourage entrepreneurs to start a business in the form of franchising and these are:<sup>51</sup>

- a well-known brand that can give the entrepreneur a big advantage over competitors;
- a unique product – something that cannot be easily copied or is unique in itself;
- unique know-how (business model, knowledge, ICT systems, patents, concessions and others) – something that cannot be developed either quickly or cheaply;
- a good location – very important in traditional trade or e.g. financial services;
- a clear operational competitive advantage – (suppliers, logistics, etc.) – most often resulting from extensive experience or developed business relations of the franchisor;
- a mix of the above – i.e. a well-composed business model, a consistently developed idea which responds to market needs.

Franchising can be divided according to several criteria, including: type of activity, form of know-how, or the organisation of the system.

Types of franchise by activity:<sup>52</sup>

- distribution (sales) franchise – the franchisee sells the assortment provided by the franchisor. The franchisee can purchase these products or it can be a deposit franchise where goods are the property of the franchisor and the franchisee is the sales agent between the brand and the customer. Examples of the distribution franchise model are grocery shops, shoe and clothing shops, petrol stations, pharmacies, cosmetic industry (drugstores).
- service franchising – in this type of franchising, apart from the rights to use the name and logo, the buyer of the licence receives access to the technology and recipes, procedures and philosophy of providing a particular service. The franchisor provides support in arranging the premises, i.e. the service point, and organises training in the field of customer service. Service franchise usually involves chains of bars, restaurants, cafes, banking, financial and insurance services, the educational sector.

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<sup>51</sup> J. Staniewicz, P. Szczepkowski, *Jak wybrać ...*, *op. cit.* [24.01.2021].

<sup>52</sup> *Rodzaje franczyzy, czym jest franczyza i jakie obejmuje dzialania?*, <https://infofranchising.pl/rodzaje-franczyzy-czym-jest-franczyza-i-jakie-obejmuje-dzialania/>, [24.01.2021].

Another categorisation of franchise is by the type of know-how, by virtue of which two forms can be identified:

- product distribution franchising – a business based on cooperation between a supplier of goods and a seller. In this case, long-term marketing plans or complex sales strategies are not important for the franchisor, so the knowledge about them is not transferred.
- business concept franchising – here, the franchisee benefits from the full know-how transferred by the brand owner. Together with the licence, the franchisor sells his or her business model, provides all marketing plans, equips the franchisee with an operation manual which is a detailed description of procedures and strategies applicable in the business model of a franchise network.

With regard to the organisation of the system, the following types of franchise can be distinguished:

- direct – an agreement is concluded directly between the franchisor and the franchisee. The franchisor himself or herself grants the licence, assists the franchisee in running the business, controls the fulfilment of the agreement.
- multi-unit – the franchisee runs more than one franchise unit. In practice, multi-unit franchising means that the franchisor has fewer partners who run several or more units.

A separate category is sub-franchising (master franchising), which is a type of franchising found in networks operating worldwide, where the franchisor does not have the possibility to constantly control the franchisees. Therefore, the franchisor gives them more contractual freedom in terms of selection of assortment or ingredients – products characteristic for the region, as well as exclusive rights to open franchise outlets in a given region.<sup>53</sup>

### Strategic investor

A strategic investor is “an individual or legal entity that owns more than 50 percent of the shares in a company.”<sup>54</sup> This is usually another company being a trading company or civil law partnership. The strategic investor takes over the subsidised company. Most companies are focused on growing their business, so the strategic investor assists the acquired company financially, provides growth opportunities and allows it to maintain liquidity. This is advantageous if the organisation is applying for a bank loan. The strategic investor should operate in a business similar to that of the subject of the engagement, so that his or her knowledge of the industry (know-how) allows him or her to take an active role in the management of the company and enables further development of the company. A strategic investment is usually the prelude to a full

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<sup>53</sup> *Rodzaje franczyzy..., op. cit.* [24.01.2021].

<sup>54</sup> B. Tomaszek, J. Matulka, *Inwestor strategiczny w mieście i powiecie Kędzierzyn-Koźle*, <http://wiedza-towladza.info/files/2013-08-02/inf-inwestor-strategiczny.pdf>, [29.01.2021], p. 3.

acquisition and integration of companies.<sup>55</sup> The investment horizon of a strategic investor is unlimited. This results from the nature of the investment itself. The acquired company is part of the investor's long-term development strategy, hence the investor never defines the investment horizon.<sup>56</sup>

The main tasks of a strategic investor include:<sup>57</sup>

- taking full control of the development process;
- ensuring close coordination of approved development plans;
- ensuring a high investment intensity, decisive for the increase of the land value;
- limiting public investment, thus minimising budgetary risks.

A strategic investor pays great attention to the market position of the acquired company and the complementarity of its product offer. Therefore, the main sphere of interest will include companies with strong and recognisable brands as well as entities with a high potential for expansion with the support of a more experienced market player. In cases where the strategic investor already has a strong brand, through acquisitions it may seek to acquire additional production capacity, which is an alternative to conducting a greenfield investment process.<sup>58</sup>

The main threat for entrepreneurs acquiring strategic investors is that the aim of such investors is to take full control over the enterprise. The investor introduces his or her own management system or know-how in the company, as well as own management staff. The company may develop with substantive and financial support, but the danger may involve losing control of the current owner over his or her business. The strategic investor will want to introduce his or her own concept of future development to the acquired company, while the owner will only be able to influence the general vision of the company's activity, as he or she will remain its partial shareholder.<sup>59</sup>

Strategic investors can be divided into entities conducting horizontal consolidation, i.e. the acquisition of a company with a competitive portfolio of the offered services and products, and vertical consolidation, also known as vertical integration. Vertical integration means that a company seeks to expand its range of competencies by operating simultaneously in several sectors belonging to the same value chain. According to the direction of integration, a distinction is made between forward vertical integration (acquiring customers for a company's products or services) and backward vertical integration (acquiring a company's suppliers). In case of both

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<sup>55</sup> M. Puławski, R. Walkiewicz, W.L. Jaworski, *Leksykon bankowo-gieldowy*, Poltext, Warszawa 2006.

<sup>56</sup> Encyklopedia Zarządzania, *Inwestor strategiczny*, [https://mfiles.pl/pl/index.php/Inwestor\\_strategiczny](https://mfiles.pl/pl/index.php/Inwestor_strategiczny), [25.01.2021].

<sup>57</sup> M. Puławski, R. Walkiewicz, W.L. Jaworski, *Leksykon...*, *op. cit.*

<sup>58</sup> *Inwestor finansowy czy strategiczny?*, <https://www.financeicontrolling.pl/controlling/inwestor-finansowy-czy-strategiczny>, [25.01.2021].

<sup>59</sup> *Kim jest inwestor strategiczny?*, <https://www.biznes-firma.pl/kim-jest-inwestor-strategiczny/27413>, [25.01.2021].



types of integration, one of the main investment criteria is the achievable synergy effect for which the strategic investor is prepared to pay an additional acquisition premium over the value resulting from the company's valuation. This premium may result from synergy effects observed in the operational area (relating to productivity and cost-effectiveness of production, the competitive position of the company, securing the supply or sale of goods and services and many other aspects) or financial area (such as, inter alia, lower cost of raising capital by the company or the possibility of enjoying tax benefits) of the company.<sup>60</sup>

In addition to strategic investors, there are also financial investors who provide their capital to the entrepreneur and in exchange expect a certain return on their investment. They do not interfere in the management of the company or internal processes. Strategic investors, on the other hand, offer comprehensive support – both financial and substantive.<sup>61</sup> The group of financial investors primarily includes private equity funds. These are investment vehicles which aim to invest capital in private companies with high growth potential. On average, the investment horizon for private equity funds is between three and five years. After this period, the funds usually exit the investment by either making the company go public or selling its stake to another financial or strategic investor.

## Forfaiting

Forfaiting is a similar tool to factoring. It also involves executing claims from customers incurred by companies selling their goods. The difference between factoring and forfaiting is that factoring is used by small companies, while forfaiting is used by medium and large entities, except that forfaiting also applies to international agreements. Another difference between the two forms of financing is additional services. In factoring there are additional services, while in forfaiting there are none. Another differentiating factor is the collateral for the receivables. Forfaiting requires collateral, whereas in factoring this is not required.<sup>62</sup> The most common forms of forfaiting are:<sup>63</sup>

- blank promissory notes;
- sureties and bank guarantees;
- mortgage securities.

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<sup>60</sup> *Inwestor finansowy...*, op. cit., [25.01.2021].

<sup>61</sup> *Jak pozyskać inwestora dla mojego biznesu?*, <https://certuscapital.pl/jak-pozyskac-inwestora-dla-mojego-biznesu/>, [25.01.2021].

<sup>62</sup> W. Gos, *Kapitał oraz finansowanie działalności gospodarczej*, Difin, Warszawa 2012, p. 197.

<sup>63</sup> P. Blukacz, *Forfaiting metodą finansowania inwestycji jednostek samorządu terytorialnego*, "Ekonomiczne Problemy Usług," 2013, 108, p. 25.

This form of outside capital also distinguishes three parties involved in the contract signing. These are:<sup>64</sup>

- forfaitist – a company that sells goods or services to its customers; it sells its claims to a forfaiter;
- forfaiter – a bank that buys claims from a forfaitist;
- debtor – owes money to a supplier because of a purchase of goods or services.

Forfaiting may also consist in the purchase of term receivables in foreign transactions, which take the form of, for example, bills of exchange, while excluding the right of recourse against the assigner of the bill of exchange. As in the case of factoring, two key actors are involved in the settlement operation: the forfaiter – a specialised financial institution of known international standing or a large bank – acquires trade, leasing or bills of exchange receivables from the forfaiter, i.e. the exporter, while the forfaiter receives remuneration in the form of discount interest. The interest depends on the value of the purchased claim and the assessment of the debtor's risk of insolvency. The forfaiter assumes this risk and the forfaitist does not have to wait for repayment of the debt by the debtor, thus preserving a free financial turnover of the company.<sup>65</sup>

Both factoring and forfaiting involve a third party – the debtor. However, this is not a party, but only a participant in the legal relationship. Both settlement operations belong to the group of unnamed commercial contracts and are concluded in accordance with the general principles of civil law, and they are usually signed through negotiations. However, a forfaiting agreement is one-off, as only one claim can be included in a given contract. As far as factoring is concerned, the contract is either continuous or periodic – for example, one year or more and covers both existing and future claims. The factoring contract is concluded in an open, semi-open and, more rarely, secret form (where the debtor is not notified). A forfaiting agreement, on the other hand, assumes the form of a secret one.

Differences emerge in the area of operation of the two clearing options. Forfaiting has limited room for manoeuvre because it focuses mainly on international trade. Factoring, on the other hand, apart from taking into account international trade, also extends its services to domestic trade. Moreover, forfaiting is more costly due to the lack of recourse and the medium- to long-term maturity of the service. The factor pays an amount of 70% to 90% of the claims to the factoring agent at the very beginning before the due date. The forfaiter, in turn, pays 100% of the value of the claim minus the forfaiting rate upfront to the forfaitist.<sup>66</sup>

Therefore, an entrepreneur deciding on one of the two types of contracts described above should first consider the nature of each, carefully analyse their rules and adapt them to his or her own possibilities and needs.

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<sup>64</sup> P. Blukacz, *Forfaiting ...*, *op. cit.*, p. 24.

<sup>65</sup> *Factoring a forfaiting*, <https://poradnikprzedsiębiorcy.pl/-factoring-a-forfaiting>, [26.01.2021].

<sup>66</sup> *Factoring a forfaiting...*, *op. cit.* [26.01.2021].

The literature distinguishes the following types of forfaiting:<sup>67</sup>

- forfaiting of trade receivables – purchase by a forfaiting institution of a medium- or long-term cash trade claim prior to its due date, with the payment of a discount interest to the forfaiting institution and the assumption of the debtor's solvency risk. The purchase of the claim by the forfaiting institution is effected by the conclusion of a forfaiting agreement. This agreement results in a change of the creditor, where the existing one is replaced by the forfaiting institution. As a result of the conclusion of a forfaiting agreement, the forfaiter does not assume the obligations arising from the trade agreement. Among other things, the forfaiter does not assume any liability under warranty and guarantee. There are always three parties to a forfaiting transaction:<sup>68</sup>
  - the bank purchasing the claim – the forfaiting institution (forfaiter),
  - the seller or supplier of goods or services selling the claim – forfaitist,
  - the customer of the forfaitist who purchases goods or services from him or her – forfaiting debtor.
- forfaiting of bills of exchange receivables, sometimes referred to as discounting, refers to the purchase of medium- and long-term bills of exchange before maturity, with advance discounting interest without recourse to the assignee.<sup>69</sup>
- forfaiting of leasing receivables, i.e. purchase by a forfaiter of medium- and long-term lease receivables prior to their due date against a fee to the forfaiter, with assumption of the lessee's solvency risk.<sup>70</sup>

If the forfaiter assumes the risk of the debtor's insolvency (including the risk of non-payment), this is proper forfaiting. Improper forfaiting means that the forfaiter does not assume this risk.

When a forfaiter buys the claim directly from the seller of the goods or services, it is called direct forfaiting. Indirect forfaiting occurs when the forfaiter purchases the claim via another institution, i.e. when the foreign forfaiting company uses a local forfaiter in the exporter's country on its behalf.<sup>71</sup>

## Venture capital

The financing of venture capital of business activities consists of an external investor injecting his or her own capital into a company for a certain period of time.<sup>72</sup> The advantage of this solution is that the investor, in addition to his or her contribution,

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<sup>67</sup> P. Blukacz, *Forfaiting...*, *op. cit.*, p. 23.

<sup>68</sup> I. Heropolitańska, P. Kawaler, A. Kozioł, *Skup i sprzedaż wierzytelności przez banki*, Twigger SA, 1998, pp. 211–245.

<sup>69</sup> *Ibidem*, p. 408.

<sup>70</sup> *Ibidem*, p. 314.

<sup>71</sup> *Czym jest forfaiting?*, <https://www.finance.egospodarka.pl/117397,Czym-jest-forfaiting,1,60,1.html>, [26.01.2021].

<sup>72</sup> A. Rosa, *Venture capital w Polsce*, <http://zeszyty.wne.tu.koszalin.pl/images/wydawnictwo/zeszyty/02/16.pdf>, [29.11.2020], p. 1.

also gives other resources to the company, including information and knowledge. The main goal of the investor is to increase the profit of the company, and in later years sell his or her shares.<sup>73</sup> Venture capitalists are specific companies, linked to financial institutions. They invest in a new venture that has a significant risk of failure. This ensures that the investor will receive a high growth rate if the venture is successful.<sup>74</sup> Venture capital entails high risk. It is usually invested in the initial stage of the company's development or at the time of launching a venture.<sup>75</sup> The uncertainty of this form of financing is mainly due to the fact that the funds entrusted by a larger company to a smaller company do not constitute a loan. Rather, it is an investment that is expected to bring certain benefits to both parties in the future. However, in the event of failure, the investor may lose out. A large enterprise buys shares in a smaller company that operates in a growth market and has a high growth potential. If the company is provided with investment, it allocates the funds obtained in this way to a project that will increase the value of the company's shares in the future. The investor then sells more expensive shares or makes a profit on the shares. Usually the whole investment lasts from 2 to 5 years.<sup>76</sup>

Venture capital is intended for companies that have been operating on the market for some time, have a proven business model and high growth potential. Investments in new technologies are most often preferred. It is important that the owners of the investing company see a high potential for development in the capital recipient.

Venture capitalists look for companies that employ effective management, have a competitive advantage in terms of product offering, services or used technology. Operating in a growth market and having a significant market share is an advantage, not a necessity.

Also very important is the investment idea to be financed with the capital obtained through venture capital. A large company, in order to decide to invest, must forecast that the idea has a chance of success and a high potential.

Before investing in a start-up, a venture capital fund carefully evaluates the following issues:<sup>77</sup>

- project potential;
- competence and experience of the management;
- rate of return on investment;

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<sup>73</sup> E. Gwarda-Gruszczynska, *Tradycyjne venture capital i corporate ventures w komercjalizacji wyników badań naukowych w sektorze ochrony zdrowia*, [https://dSPACE.uni.lodz.pl/xmlui/bitstream/handle/11089/30133/137-149\\_Tradycyjne%20venture%20capital.pdf?sequence=1&isAllowed=y](https://dSPACE.uni.lodz.pl/xmlui/bitstream/handle/11089/30133/137-149_Tradycyjne%20venture%20capital.pdf?sequence=1&isAllowed=y), [29.11.2020], p. 138.

<sup>74</sup> A. Rosa, *Venture capital...*, *op. cit.*, pp. 133–134.

<sup>75</sup> B. Korzeniewska, *Niestandardowe formy finansowania przedsiębiorstw rola i decyzje wyboru*, "Zeszyty Naukowe PWSZ w Płocku, Nauki Ekonomiczne" 2016, XXIII, p. 171.

<sup>76</sup> *Venture capital – z czym to się je?*, <https://poradnikprzebieiorcy.pl/-venture-capital-z-czym-sie-je>, [27.01.2021].

<sup>77</sup> *Czy inwestorzy Venture Capital zainwestują w startup?*, <https://www.biznes-firma.pl/czy-inwestorzy-venture-capital-zainwestuja-w-startup/28977>, [21.01.2021].

- possibility of quick exit from the investment;
- innovation of the project.

A positive opinion issued about a start-up means that its creator can receive money from the venture capital investor as well as active support for the development of the business in terms of content. In addition, the investor can bring his or her business contacts, assistance in finding further investors as well as strategic and operational advice to the start-up.

This form of financing has many advantages. First of all, a small or medium-sized enterprise gains capital for a risky investment without having to provide any collateral. In addition, venture capital also means non-financial support. The company gains access to know-how and the knowledge of specialists. The investor, by purchasing shares, becomes a partner, thanks to which he or she monitors the activities of the company and assumes part of the risk of investment. Large and small companies have one goal in common – to succeed and increase the value of the company. What is more, injecting investor's capital positively influences the image of the supported company. For external entities, it is a signal that the company is worth investing in.

As far as the capital side of this type of financing is concerned, the company is not obliged to make regular repayments of capital and interest, as is the case, for example, of an investment loan. This increases the value of the company, which at the same time has more resources to devote to the implementation of the project and the pursuit of its objectives.

The disadvantages of venture capital include a partial loss of control of the company resulting from the investor buying out part of the shares. This involves the necessity to share profits, share power and take into account the opinion of the partner. Moreover, this form of financing usually means a rather long period of acquiring an investor. It usually takes about 6–12 months from the moment the venture capitalist contacts the company until the investor enters the company. This period is therefore much longer than in the case of raising capital via a bank credit.

It is also worth noting that venture capital is one of the more expensive forms of financing. It may give the wrong impression that its cost is low, because at the beginning there is no need to repay the capital. However, when the investor leaves, it often turns out that the company sold its shares too cheaply, because the value of the company has increased several times. This will happen if the company is successful. The real cost of capital should therefore be estimated at 20–30% per year.

In conclusion, venture capital is a form of financing intended only for certain small and medium-sized enterprises. As a rule, it is not used by companies which are just starting out, which operate in a market not characterised by high growth potential, or which have a different form of activity than a capital company. Companies which have used this form of financing include Amazon.com, Facebook or Google. Without the support of private investors and venture capital, the founders of these global brands would find it difficult to turn their innovative ideas into business.

The best known venture capital firms in the world are:<sup>78</sup>

- Accel,
- Andreessen Horowitz,
- Benchmark,
- Index Ventures,
- Sequoia Capital,
- Bessemer Venture Partners,
- Founders Fund,
- GGV Capital,
- IVP.

## Business angels

Business angels are individuals who invest their own money and time in a company with the intention of making a profit related to the increase in value of that company or benefiting from the profits made by that company. In the United States, business angels are also referred to as angel investors or informal investors. Business angels are a group of investors which is not homogeneous. These investors differ, among other things, in their approach to the implementation of the investment or the manner and scope of support.<sup>79</sup>

Business angels are an informal type of venture capital. They are also referred to as individual investors who are mainly unknown, due to their anonymity and protection of their privacy. They are usually individuals who are entrepreneurs and managers. They are characterised by the fact that they have experience in running a business and own capital and, moreover, they have experience and knowledge of how to manage a business. The idea is that an individual investor looks for a risky venture and invests in it at an early stage in exchange for shares.<sup>80</sup>

Business angels seek investment through various channels. One of them are business angel clubs. These are associations that organise various types of training for individual investors and enterprises seeking investors. Another group is business angel alliances, which is an informal organisation or group. It is usually formed when an investment project needs additional funding. Another solution are business angel networks, i.e. non-profit organisations. They help to match the right investor with the specifics of the venture. In addition, there are also electronic networks, where investors search for a venture on various specialised websites. Another option is syndicates. This is one of the most formalised organisations. They bring together

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<sup>78</sup> *The Top 100 Venture Capitalists*, <https://www.cbinsights.com/research/top-venture-capital-partners/>, [27.01.2021].

<sup>79</sup> M. Malec, *Anioły biznesu. Jak działają? Gdzie szukać?*, <https://www.private-equity.pl/anioly-biznesu-business-angels/>, [31.01.2021].

<sup>80</sup> J. Cecelak, *Rola Aniołów biznesu w finansowaniu przedsiębiorstw we wczesnych fazach rozwoju*, Państwowa Wyższa Szkoła Zawodowa w Płocku, 2017, 26, pp. 208–209.

different groups of investors who have similar interest to fund one common project. The last group is business angel funds, where funds are raised from investors for various investment projects.<sup>81</sup>

The task of business angels is to search and invest in the most innovative, future-oriented and profitable businesses. This allows young entrepreneurs to obtain financial and substantive support for their activity. In Poland, “angels” are gathered, among others, around the Business Angels Club.<sup>82</sup>

Business angels are not limited to a specific phase of company development. They make investments in start-ups, projects or companies at any stage of development. In case of projects in the early stages of development of start-ups, business angels participate in initial investment rounds in the pre-seed and seed phase, and more rarely in the series A phase (at this stage a start-up has a product, but must demonstrate that the business model adopted provides the possibility of achieving long-term profits).<sup>83</sup>

As already mentioned, business angels invest not only in projects or companies that are at early stages of development. They also target companies that have been operating in the market for a longer period of time. Business angels can provide such a company with funds, for example, in order to launch a new production line, enter a new market segment or complete work on a developed product or technological solution. The acquired capital may also constitute the first, initial investment round for the company, which in the long run will look for much larger financing. Such larger financing may be provided by venture capital or private equity funds.

Most often, in exchange for providing the company with funds, business angels receive a stake in the capital of the company. In case of some investments in projects or companies at early stages of development, business angels do not take up such shares in the company at the time of providing capital. Often, in return for the provided financing, they take up debt instruments with an option to convert these instruments into shares in the future.

In simple terms, business angel investors provide a loan to a company that can be converted into shares under certain conditions. This is primarily aimed at postponing the valuation of the company to a later point in time. For example, the valuation of the company may be based on the valuation resulting from the next investment round.

Unlike venture capital funds, business angels do not always focus exclusively on increasing the value of the company. They do not expect that the return of capital together with a profit occurs exclusively through capital exit from the investment, i.e. the sale of shares in the company. Business angels also allow for other possibilities

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<sup>81</sup> I. Piekunko-Mantiuk, *Aniołowie biznesu i ich rola w finansowaniu startupów*, “*Ekonomia i Zarządzanie*” 2014, 4, pp. 367–368.

<sup>82</sup> *Kogo wspiera Business Angels Club?*, <https://www.biznes-firma.pl/kogo-wspiera-business-angels-club/28711>, [21.01.2021].

<sup>83</sup> M. Malec, *Finansowanie startupów. Źródła. Rundy inwestycyjne*, <https://www.private-equity.pl/finansowanie-startupu/>, [31.01.2021].

of achieving profits from investments in a company. There are many such possibilities. They depend on the specific situation of the company, including, for example, the profitability of the company or its development strategy.

Moreover, business angels most often do not expect a formal approach in the capital raising process. Of course, much depends on their level of expertise in making equity investments, including venture capital investments. The key steps in attracting private investors are similar to those in attracting a venture capital fund as an investor. In other words, the founder of the start-up has to encourage business angels to meet in order to have the opportunity to present the project. For this reason, a key material is the so-called investment teaser. It is a key investment material (apart from pitch deck and the financial model), where its primary purpose is to attract the initial investor's interest in the project and to encourage him or her to get more details.<sup>84</sup> In case of business angels, such a teaser does not have to be "perfect" as in the case of a fund. However, it is worth thinking about adapting the investment teaser to a particular business angel or group of such investors. The idea is to take into account the experience and knowledge of such an investor. Funds are fairly homogeneous investors, so one can usually use a single investment teaser. In case of a private investor, it is not always useful to have a pitch deck during the first meeting. Often, it is more advisable to present the project without the support of a presentation.

This is because business angels often prefer to talk about a project over lunch rather than a formal business meeting with access to multimedia projectors. This distinguishes business angels from the formal approach used by funds.

The due diligence process carried out by business angels is also less formal than for funds. It also applies to the negotiation stage. This process is based on a comprehensive examination of the condition of the company. The investor wants to check whether the offer is actually beneficial. The inspection covers the entire enterprise, giving a holistic picture of the company. During due diligence, the company's financial, commercial, legal, tax and technological condition is comprehensively analysed to assess its strengths and weaknesses.<sup>85</sup>

Business angels make investments in groups or independently. In the United States, such investor groups are referred to as "syndicates". In Poland, they are mainly found within business angel organisations.

With regard to group investments, two solutions are possible:<sup>86</sup>

- one of the investors or an investment broker acts on behalf of the whole group (syndicate);
- each investor negotiates independently.

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<sup>84</sup> M. Malec, *Teaser inwestycyjny. Co to jest? Jak napisać? Przewodnik*, <https://www.private-equity.pl/teaser-inwestycyjny/>, [31.01.2021].

<sup>85</sup> *Due diligence – na czym polega?*, <https://poradnikprzedsiębiorcy.pl/-due-diligence-na-czym-polega>, [31.01.2021].

<sup>86</sup> M. Malec, *Anioły biznesu...*, *op. cit.*, [31.01.2021].



In each case, due diligence costs are borne jointly by all investors. The first of the above paths is most often used by business angel organisations. Negotiations are conducted by an equity investment specialist who represents the business angel organisation. The second path takes place when several private investors are involved in the negotiations. They are often acquaintances, where one of them is the lead investor.

Business angels are most often supported by befriended advisors in investment, legal and accounting matters. There is no single directory of business angels. Their activity is not regulated by any special regulations. Finding these investors is the most difficult part of raising finance. Some business angels cooperate closely with venture capital funds. For example, in Poland such cooperation is a condition for carrying out an investment with the support of the national Centre for Research and Development (NCBR) or the Polish Development Fund (PFR).

However, the largest group of business angels does not work with any organisations or entities in the capital investment market. Reaching them involves spending a lot of time on networking. This group primarily includes entrepreneurs, managers or professionals who do not make many investments.

The financial support provided to an enterprise by private investors being business angels has many advantages over funds:<sup>87</sup>

- the investment process carried out by private investors is usually more flexible than that carried out by a fund, and is often faster;
- the costs of the due diligence process, negotiations and monitoring in case of an investment by business angels are lower than in the case of a venture capital fund;
- private investors, due to the fact that they invest their own money, are usually a more flexible partner than the fund;
- business angels are usually entrepreneurs and not finance specialists, which is often the case with fund representatives;
- in case of business angels, “exit” options are not necessarily clearly defined at the time of investment;
- in comparison to funds, business angels are more likely to take into account the personality, way of life and views of the founder.

### Credit insurance

Credit insurance is linked to taking out a debt with a bank. It is characterised by the fact that in the event of unfavourable circumstances, the insurer will cover a part of the given liability. It is usually determined by the bank when agreeing the terms of the contract with the borrower. Credit insurance depends on the type of loan taken out, the repayment period, the assets held by the company and the legal status of the organisation. It provides additional security in the event of fortuitous

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<sup>87</sup> M. Malec, *Anioły biznesu...*, *op. cit.*, [31.01.2021].

events, as a result of which the borrower is unable to pay part of the loan. It protects the interests of the person who has an obligation to the institution, as well as the interests of the bank.<sup>88</sup>

As far as credit insurance is concerned, two groups can be distinguished. These are compulsory insurance and voluntary insurance. Obligatory insurance includes: bridge insurance, insurance for low (missing) own contribution and property insurance. Voluntary insurance includes life insurance, permanent disability insurance, unemployment insurance and occupational disability insurance.<sup>89</sup>

Financial insurance also includes trade credit insurance in domestic and foreign trade, i.e. insurance of trade receivables, including chronic default and general insolvency.<sup>90</sup>

A trade credit consists of deferred payment for goods or services (the length of the credit period may vary) and is usually granted within 30 to 120 days. It constitutes an alternative to a bank credit and is an important non-banking form of financing business activity.

A trade credit is particularly important in periods of economic crisis, when banks often raise their creditworthiness assessment criteria, increase margins, require higher collateral and reduce the maximum amounts or limits of the granted credit. All this leads to the situation where some companies applying for a credit fail to meet the requirements set by banks, while other companies decide not to use the credit facility, fearing difficulties with its repayment. A limited access to a bank credit is especially relevant for SMEs, hence a trade credit is becoming its substitute and an important form of financing in the outside capital of enterprises – recipients.<sup>91</sup>

A trade credit belongs to the group of short-term forms of financing business activity with outside capital. It is, especially for SMEs, a source of capital, one of the most flexible and accessible of all external financing sources. There are two types of trade credits:<sup>92</sup>

- supplier's credit (classic form) with a deferred payment for the sold good or the provided service; the cost of the deferral is generally included in the price of the good in the form of a rebate or discount granted to the purchaser when payment for the purchased good is made before a predetermined date (so-called "discount");<sup>93</sup>

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<sup>88</sup> A. Szczukocka (ed.), *Ubezpieczenie jako forma zabezpieczenia kredytu*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2017, p. 153.

<sup>89</sup> *Ibidem*, p. 153.

<sup>90</sup> E. Wierzbicka, *Ubezpieczenie jako ekonomiczny instrument zarządzania należnościami małych i średnich przedsiębiorstw*, "Acta Scientifica Academiae Ostroviensis. Sectio A, Nauki Humanistyczne, Społeczne i Techniczne" 5 (1), 2015, p. 14.

<sup>91</sup> E. Wierzbicka, *Ubezpieczenie...*, *op. cit.*, p. 11.

<sup>92</sup> *Ibidem*, p. 11.

<sup>93</sup> W. Bień, *Zarządzanie finansami...*, *op. cit.*, p. 168.

- buyer's credit (non-classical form) in the form of prepayment of funds to an account specified by the supplier, e.g. for goods not yet produced or services not yet rendered; in this case there is no discount for early payment, but the trade credit is offered free of charge; this form of trade credit is rather a guarantee for the sale of goods or the provision of services.

Trade receivables insurance (trade credit insurance) may cover:<sup>94</sup>

- commercial risk (also known as economic risk) – when the non-payment for a delivery is due to the financial situation of the customer;
- non-commercial risk (non-commercial) – when the lack of payment by the customer for the delivered goods or services results from the occurrence of events outside the economic sphere and beyond the recipient's control, which is most often referred to as the occurrence of a political risk.

### Subsidies

Subsidies are a form of state aid. Here, the state helps certain enterprises financially with public funds. However, not all entrepreneurs can benefit from this aid. This applies to selected enterprises. Access to subsidies depends on regional development and other aspects. Public aid has better financing conditions than the private sector. This financing is cheaper, often even free of charge.<sup>95</sup>

State aid comes from various sources. These include:<sup>96</sup>

- funds from the state budget;
- funds from local self-government entities;
- the Community budget of the European Union;
- budget of entities entitled to use public funds.

A characteristic feature of grants from public funds is the need to prepare a project (application, offer, letter of intent) which is to reflect the objectives and needs defined by the donor/sponsor. Donations are usually awarded in a competitive procedure, in calls for proposals organised at a specific time, by e.g. companies, corporate foundations, government administration, local authorities. After the task is completed, the organisation submits a report on its implementation. The subsidy is most often awarded for the implementation of a specific action (e.g. establishing one's own company). It can also be used to provide institutional support to an organisation, e.g. to purchase equipment, provide training for employees, etc.

One form of public aid for subsidising one's own business activity occurring in Poland is a non-refundable and tax-free subsidy from the county labour office (PUP), which may amount to six times the monthly salary in the enterprise sector.

<sup>94</sup> E. Wierzbicka, *Ubezpieczenie...*, *op. cit.*, p. 15.

<sup>95</sup> D. Karwacka, *Dotacje*, [in:] E. Wrońska-Bukalska (ed.), *Finansowanie działalności przedsiębiorstwa: aspekty podatkowe księgowo i finansowe*, Difin, Warszawa 2016, p. 152.

<sup>96</sup> *Ibidem*, p. 152.

The condition for receiving the subsidy is the status of an unemployed person registered in the office for at least one month, although some labour offices require three months of registration. The subsidy does not apply to full-time students (part-time students are eligible), people who refused an offer of employment, internship or vocational training during the last year, and those who have already benefited from public funding. An application for funding is submitted to the county or voivodeship labour office, usually together with a business plan. After receiving a subsidy and signing a contract with the office, the applicant have to set up a business and run it for at least a year. During this time he or she cannot either suspend the business or take up other employment. It is also worth knowing that if the applicant does not get a subsidy the first time, he or she can apply again. Labour offices announce several calls for applications per year.<sup>97</sup>

In Poland, entrepreneurs with innovative business ideas can count on subsidies. In competitions, funds for establishing a company can be obtained from seed funds, venture capital funds or networks of business angels selected by the Polish Agency for Enterprise Development (PARP). Within PARP, the Centre for Small and Medium Enterprises Development helps in developing competencies and financing a company.

Start-up platforms under the Operational Programme Poland help people planning to set up a business in the voivodeships located in eastern Poland and characterised by a bad situation on the labour market to develop their business. Frequently, funding for one's own business within the framework of public funds from the European Union is dedicated to groups which are in a particularly difficult situation on the labour market – e.g. farmers insured in the Agricultural Social Insurance Fund (KRUS) who decide to start a business may receive a premium from the Rural Development Programme. One only has to fit in with the smart specialisation of a given region. Academic Incubators of Entrepreneurship (AIP), which help candidates for entrepreneurs to set up start-ups, are a great support for young people. They also provide substantive support. There are 56 AIPs located in 26 Polish cities.<sup>98</sup>

In Lithuania, entrepreneurship is supported by the Lithuanian Business Support Agency (LVPA). It is a public sector institution which implements national strategies and programmes supporting the development of Lithuanian businesses, increasing their international competitiveness, assisting in making investment as well as applied scientific research and experimental development, implementing modern technologies, digitalisation, ecological innovations, energy, tourism, managing EU structural funds and state budget funding, disseminating information needs and distributing EU assistance.<sup>99</sup>

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<sup>97</sup> A. Ogonowska-Rejer, E. Bednarz, *Jak pozyskać wsparcie na swój pierwszy biznes*, <https://pieniadze rp.pl/firma/19467-dotacje-na-zalozenie-firmy>, [31.01.2021].

<sup>98</sup> *Ibidem*, [31.01.2021].

<sup>99</sup> Lithuanian Business Support Agency (LVPA), <http://lvpa.lt/en/veikla>, [31.01.2021].

Public funding can be obtained not only for starting up a company, but also for developing it. Currently, under the European Funds, a project is being implemented to support medium-sized, small and micro-enterprises and the self-employed with non-refundable subsidies for working capital. Entrepreneurs may as well avail themselves to an offer of advantageous interest-bearing loans for maintaining business activity and meeting the current needs of the company. Co-financing for medium-sized companies is handled by the PARP, for other entities: Marshal's Offices of individual voivodeships.<sup>100</sup>

### 1.3. Other forms of financing

In addition to equity and debt capital as well as business financing using public funds, other forms of capital raising can be identified. One of them is crowdfunding. The term comes from the conjunction of English words "crowd" and "funding". It means financing by the (digital) crowd of various undertakings, including innovative projects, from the sphere of business, culture, art, sport, media, etc. In Polish, the name: social funding has gained popularity.<sup>101</sup>

Crowdfunding is an alternative way of raising capital, which consists in running a crowdfunding campaign aimed at financing a specific project – the subject of the campaign. Its final result may be the creation of a specific product, launching of a new service on the market or incorporation of a business entity. The beneficiaries, most often via a specialised third party, i.e. a crowdfunding platform acting as a kind of intermediary, present their project to the online community and count on the support of the funders. The beneficiary has the possibility to also offer an adequate counter-benefit, which may be, for example, access to the financed product or service. It is precisely the issue of reciprocity and the very form of the beneficiary's benefit, especially the level of its equivalence, that will have the greatest impact on the legal classification of a specific campaign.<sup>102</sup>

The existence of crowdfunding is closely related to the widespread access to the Internet. It is based on the idea of a given project asking for financial support from Internet users, in return offering specific benefits – e.g. a ready-made product

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<sup>100</sup> *Własna firma – dotacje w nadzwyczajnym czasie*, <https://beskidzka24.pl/wlasna-firma-dotacje-w-nadzwyczajnym-czasie/>, [31.01.2021].

<sup>101</sup> K. Koziół-Nadolna, *Crowdfunding jako źródło finansowania innowacyjnych projektów*, „Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia” 2015, 73, p. 672.

<sup>102</sup> A. Polanowski, *Crowdfunding. Zasady działania i europejskie plany regulacyjne*, <https://www.parp.gov.pl/component/content/article/54127:crowdfunding-zasady-dzialania-i-europejskie-plan-y-regulacyjne>, [31.01.2021].

or a discount on its purchase once it goes on sale. There are at least several popular services on the Internet, which provide everyone with the opportunity to make an appeal to the community and collect money for a given purpose.<sup>103</sup>

The following types of crowdfunding can be distinguished.<sup>104</sup>

- 1) Donation-based crowdfunding – funding is entirely philanthropic in nature. In principle, the community does not receive any reciprocal benefit, it can only count on symbolic gratification (e.g. thanks). This is how charity or science projects are most often implemented. An example of a Polish crowdfunding platform can be the portal zrzutka.pl.
- 2) Rewards-based crowdfunding – the funder receives a predetermined type of gratification, dependent on the amount of funds paid which constitutes such a gratification, i.e. a reward. Most often the consideration is not fully equivalent. The objective value of the reward is much lower than the invested funds. This is one of the most popular crowdfunding models on the Polish market (e.g. portal polakpotrafi.pl).
- 3) Pre-sales crowdfunding – funders provide funds for the implementation of a specific product or service, which, after completion, are provided by the beneficiary and constitute his or her reciprocal benefit. Campaigns implemented in this model are related to the threshold of the minimum amount collected, the exceeding of which is necessary for the payment of funds and commencement of project implementation (the all-or-none principle). Many computer games have been financed in a similar way – an example is Pillars of Eternity, which was produced after its creators obtained funding of almost 4 million dollars.<sup>105</sup>
- 4) Crowdfunding, equity crowdfunding – funders, in return for support, receive a benefit in the form of shares in the company. Investors receive some control over the beneficiary company (primarily through the exercise of voting rights) and look forward to making a profit by later selling their shares or receiving dividends paid by the company. This is how beesfund.com operates. An example of a successful crowdfunding campaign that raised a capital worth PLN 400,000 can be the issuance of shares of Escola SA, a company creating mobile applications for the Polish market.<sup>106</sup>
- 5) Crowdlending, sociallending, peer-to-peer lending – the financial benefit to the beneficiary is repayable – the client is obliged to return all the funds plus a predetermined amount of interest. In practice, there are many different types of peer-to-peer lending and they depend on the role of the crowdfunding platform – most often

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<sup>103</sup> *Crowdfunding – jak to działa?*, <https://poradnikprzedsiębiorcy.pl/-crowdfunding-jak-to-dziala>, [17.01.2021].

<sup>104</sup> J. Czarnecki, *Rodzaje crowdfundingu*, [in:] *Raport: crowdfunding*, Warszawa 2014.

<sup>105</sup> Project Eternity, <https://www.kickstarter.com/projects/obsidian/project-eternity>, [31.01.2021].

<sup>106</sup> Akcjonariat Escola, <https://akcjonariatescola.pl>, [31.01.2021].

it is about whether it fulfils the functions of an intermediary and the possibility to automatically invest in groups of entities that meet certain criteria. The largest platform that operates on these assumptions is lendingclub.com.

The first of the three presented models is also often referred to as community sponsorship due to the fact that the possible reciprocal benefits are quite limited. The possible profit of the funders, which could exceed the funds they have previously invested, is practically impossible. Precisely because of this and the fact that the risk of fraud in these types of crowdfunding is the lowest, the legal requirements for specific campaigns and crowdfunding platforms will also be the easiest to meet.<sup>107</sup>

The most popular platforms offering crowdfunding services include:<sup>108</sup>

- Kickstarter,
- Indiegogo,
- Patreon,
- GoFundMe,
- Chuffed,
- ArtistShare,
- MightyCause,
- InKind,
- Crowdfunder,
- Give,
- Charitable,
- Lending Club,
- AngelList,
- Ulule,
- Funding Circle,
- Seed&Spark,
- Crowdcube,
- GoGetFunding,
- Fundable,
- Kiva.

Another way of raising capital is fundraising. The primary and only purpose of fundraising is to raise funds. These funds (in-kind and financial) are provided for a one-off project or for the organisation's ongoing activities.<sup>109</sup>

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<sup>107</sup> Komisja Nadzoru Finansowego, *Załącznik nr 2: Modele crowdfundingu w świetle obowiązujących przepisów prawa*, [in:] *Raport z prac Zespołu roboczego ds. rozwoju innowacji finansowych (FInTech)*, Warszawa 2017.

<sup>108</sup> E. Deckers, *Top 21 crowdfunding platforms of 2021*, <https://www.godaddy.com/garage/top-20-crowdfunding-platforms/>, [17.01.2021].

<sup>109</sup> A. Sargeant, J. Shang, *Fundraising Principles and practice*, Jossey-Bass, San Francisco 2010, p. 147.

Fundraising is carried out by professional fundraisers who are recruited for individual projects, as well as employed on a permanent basis to raise funds for an organisation. In Poland, the organisation associating professional fundraisers is the Polish Fundraising Association.<sup>110</sup> In Lithuania, the largest fundraising portal is aukok.lt.<sup>111</sup>

Fundraising can be defined as raising funds that involves creating positive relationships and finding funding sources that are appropriate for the type of non-profit organisation that wants to increase its fundraising capacity and fundraising effectiveness.<sup>112</sup> Fundraising can be divided into different types of activities, including general fundraising capacity building, donor solicitation, special events and public relations, special events fundraising, property donations, capital planning, corporate donations, and government subsidies.<sup>113</sup>

The first activity is general fundraising capacity building. This activity involves, among other things, setting long-range strategic goals as well as exploring fundraising markets and prospects for special events. Moreover, the potential donor market must also be identified and a donor register must be created together with planning communication with donors. It is also necessary to prepare an office for fundraising activities (furniture and necessary equipment). The next step is to acquire donors. First, a list of donors needs to be identified by region and district. Fundraising activities should then be launched to solicit donors for “small donations”. This can be done in various ways, e.g. through fundraising letters, telephone calls and door-to-door meetings to raise awareness among potential donors. These funds can be raised through various methods, e.g. fundraising letters, telephone calls, and door-to-door meetings to raise awareness of the organisation’s fundraising activities among potential donors. In contrast to individual donations, there are also corporate donations, which constitute efforts to find corporations willing to donate. Fundraisers can also acquire government subsidies.

Another form of fundraising is special events and public relations, which involves organising events to raise funds. This task is mainly the result of conducting a set of marketing and public relations activities. Another, specific type of such an activity is special events fundraising, i.e. events focused on fundraising and marketing. These are activities consisting in general promotion, public education, and raising awareness of the importance of fundraising. Property transfer can also be a form of donation. On the basis of legacies and other activities (donations), organisations can receive real estate for their needs. A long-term activity with a fairly large reach can be capital planning. This involves establishing long-term relationships with individual donors and institutions to provide funds for occasional donations.

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<sup>110</sup> Fundraising, <https://fundraising.org.pl/>, [20.01.2021].

<sup>111</sup> Aukok, <https://www.aukok.lt/about-us/>, [01.04.2021].

<sup>112</sup> A. Świdorska, *Zarządzanie działaniami fundraisingowymi*, [w:] A. Grzegorzczak (ed.), *Fundraising w działalności organizacji pozarządowych*, Wyższa Szkoła Promocji, Warszawa 2011, p. 17.

<sup>113</sup> A. Sargeant, J. Shang, *Fundraising...*, *op. cit.*, p. 210.



Access to capital is the basic factor determining the possibility of establishing and then running and developing one's own business. Enterprises' own capital is often insufficient to carry out investment plans, which is why there is a need to raise external capital. When committing own funds to a business, one must also take into account their cost, which is the opportunity or lost opportunity cost and is equal to the total rate of return that can be expected if own funds were invested in other assets. This way or another, equity is expected to raise external capital. While summarising the above discussed external forms of raising capital to finance business activities, it should be noted that they are diverse both in terms of the required collateral, formal procedures and costs generated for the enterprise. The choice of an appropriate form of external funding depends on the industry in which the company operates, the specificity of its activities, or the size of the enterprise. Determining the optimal capital structure (proportion between equity and debt capital) affects the market value of the company and is one of the most important decisions taken by the owner.

## 2. Teambuilding

The topic of teamwork has been of great interest for several decades. J.R. Katzenbach and D.K. Smith defined a team as a group of people interacting regularly in pursuit of common goals.<sup>114</sup> Teamwork fosters outstanding results and even the execution of the most difficult tasks.<sup>115, 116, 117</sup> This is especially true today in an environment that is changing rapidly and requires the analysis of vast amounts of data from a variety of sources. Well-functioning teams perform far better than individuals.<sup>118, 119</sup> This is possible, among other things, through knowledge sharing and cooperation<sup>120, 121, 122</sup> A. Donnellon claims that the results can be astonishing. Different skills and experiences combined with strong motivation of individual team members create a synergy effect, thanks to which the team can react faster to market, economic and technological changes. This is why work teams are becoming a key element in the organisational structures of companies, not only multinationals, but also small and medium-sized enterprises and other types of organisations.<sup>123</sup>

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<sup>114</sup> J.R. Katzenbach, D.K. Smith, *The Wisdom of Teams: Creating the High-Performance Organization*, Harvard Business Press, 1992.

<sup>115</sup> M.A. Wolfson, J.E. Mathieu, *Team composition*, [in:] E. Salas, R. Rico, J. Passmore (ed.), *The Wiley Blackwell Handbook of the Psychology of Team Working and Collaborative Processes*, John Wiley & Sons Ltd., 2011, pp. 129–149.

<sup>116</sup> J. Szydło, D. Szpilko, C. Rus, C. Osoian, *Management of multicultural teams. Practical lessons learned from university students*, Oficyna Wydawnicza Politechniki Białostockiej, Białystok 2020, p. 41.

<sup>117</sup> J. Samul, M. Zaharie, A. Pawluczuk, A. Petre, *Leading and developing virtual teams. Practical lessons learned from university students*, Oficyna Wydawnicza Politechniki Białostockiej, Białystok 2020.

<sup>118</sup> A. Giedraitis, R. Stašys, R. Skirpstaitė, *Management team development opportunities: A case of Lithuanian furniture company*, "Entrepreneurship and Sustainability Issues" 2017, 5 (2), pp. 212–222.

<sup>119</sup> A.C. Edmondson, J.F. Harvey, *Cross-boundary teaming for innovation: Integrating research on teams and knowledge in organizations*, "Human Resources Management Review" 2018, 28, pp. 347–360.

<sup>120</sup> A.C., Edmondson, *Psychological safety and learning behavior in work teams*, "Administrative Science Quarterly" 1999, 44 (2), pp. 350–383.

<sup>121</sup> M.I. Delgado Piña, M.A. Romero Martínez, L. Gómez Martínez, *Teams in Organizations: A Review on team effectiveness*, "Team Performance Management" 2008, 14, pp. 7–21.

<sup>122</sup> M.W. Kopertyńska, *Funkcjonowanie zespołów kulturowych w przedsiębiorstwach – doświadczenia badawcze*, "Management Forum" 2018, 6 (2), pp. 16–22.

<sup>123</sup> A. Donnellon, *Leading teams: expert solutions to everyday challenges*, Harvard Business Review, 2006.

An effective team, according to J.R. Katzembach and D.K. Smith, must be characterised by several features:

- a clear objective that is challenging, imaginative and emotionally stimulating;
- a way of working that is acceptable to all team members;
- diversity – members should have complementary specialist and interpersonal skills, and their number should not exceed 25;
- commitment – the success of a team is closely linked to the sense of responsibility of its members for carrying out their tasks.<sup>124</sup>

D. Mackin points out that members whose teams are significantly successful:

- consider group goals as more important than personal goals;
- understand the tasks ahead of them and commit fully to completing them;
- listen to constructive feedback on their work;
- have the freedom to act and are aware that they must not treat their teammates as competitors;
- communicate openly, appreciate the diversity of ideas;
- foster an atmosphere of respect, open-mindedness and willingness to cooperate;
- are more willing to take risks, as trust replaces fear in their behaviour;
- treat conflicts and divergent opinions as opportunities for development;
- constantly seek to develop themselves; participate in training;
- consider team responsibilities as an integral part of their duties;
- are connected by a strong bond based on shared values – this gives them a sense of joint responsibility for the results of the entire group and a strong need for personal involvement in its work.<sup>125</sup>

The effectiveness of a team depends on defining the purpose, tasks, work rules, skills and qualities of team members, size and structure, and responsibilities of the staff.<sup>126</sup> Members must be committed to entrusted work and emotionally attached to each other.<sup>127, 128</sup> The manager's role is to build a successful team

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<sup>124</sup> J.R. Katzenbach, D.K. Smith, *The Wisdom of Teams: Creating the High-Performance Organization*, Harvard Business Press, 1992.

<sup>125</sup> D. Mackin, *Budowanie zespołu. Zestaw narzędzi*, Dom Wydawniczy REBIS, Poznań 2011, pp. 50–51.

<sup>126</sup> R.A. Guzzo, M.W. Dickson, *Teams in organizations: Recent research on performance and effectiveness*, "Annual Review of Psychology" 1996, 47, pp. 307–338.

<sup>127</sup> B. Kożusznik, *Kierowanie zespołem pracowniczym*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2005, pp. 212–213.

<sup>128</sup> J.R. Mesmer-Magnus, D.R. Carter, R. Asencio, L.A. DeChurch, *Space exploration Illuminates the Next Frontier for Teams Research*, "Group & Organization Management" 2016, 41(5), pp. 595–628.

through the right selection of team members.<sup>129</sup> In subsequent stages, this is reflected in the quality of task performance, as the team has greater potential than the sum of its components.<sup>130, 131, 132, 133</sup>

## 2.1. Effective staff recruitment

Regardless of the nature of organisational activity (production or service), its effectiveness and efficiency are determined by employees, i.e. human resources. Therefore, every organisation carefully looks for the right employees and invests in their development.<sup>134</sup> The aim of recruitment (or/and e-recruitment) is to recruit an employee with the required competencies according to employers' needs.<sup>135, 136</sup> In recruitment, it is important to have a precise job description and its requirements which should determine the forms and instruments of staff selection.<sup>137</sup> The recruitment process consists of the following stages:

- identification of staffing needs;
- creation and analysis of job descriptions;
- external or internal recruitment;
- selection;
- employment (signing of contract);
- socio-occupational adaptation (adaptation programme).<sup>138</sup>

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<sup>129</sup> F. Gil, C.M. Alcover, J.M. Peiró, *Work team effectiveness in organizational contexts: Recent research and applications in Spain and Portugal*, "Journal of Managerial Psychology" 2005, 20 (3/4), pp. 193–218.

<sup>130</sup> R. Jay, *Biznes. Kierowanie zespołem*, Wydawnictwo Galaktyka, Łódź 1995.

<sup>131</sup> M. McGreevy, *Team working: part I – an evaluation of current thinking*, "Industrial and Commercial Training" 2006, 38 (5), pp. 259–264.

<sup>132</sup> E. Salas, N.J. Cooke, M.A. Rosen, *On Teams, Teamwork, and Team Performance: Discoveries and Developments*, "Human Factors" 2008, 50 (3), pp. 540–547.

<sup>133</sup> E. Salas, S.I. Tannenbaum, S.W.J. Kozlowski, C.A. Miller, J.E. Mathieu, W.B. Vessey, *Teams in space exploration: A new frontier for the science of team effectiveness*, "Current Directions in Psychological Science" 2015, 24 (3), pp. 200–207.

<sup>134</sup> M. Wyrwicka, *Zarządzanie zasobami ludzkimi w przedsiębiorstwie usługowym*, Wyd. Politechniki Poznańskiej, Poznań 2011, p. 32.

<sup>135</sup> L. Kohnová, J. Papula, Z. Papulová, K. Stachová, Z. Stacho, *Job mismatch: The phenomenon of over-skilled employees as a result of poor managerial competences*, "Entrepreneurship and Sustainability" 2020, 8 (1), pp. 83–102.

<sup>136</sup> B.E. Baran, J.N. Filipkowski, R.A. Stockwell, *Organizational Change: Perspectives From Human Resource Management*, "Journal of Change Management" 2019, 19 (3), pp. 201–219.

<sup>137</sup> A. Michna, K. Grygiel, P. Grygiel, *Rekrutacja oraz system motywacyjny pracowników jako element Zarządzania Zasobami Ludzkimi w wybranej jednostce administracji publicznej*, "Zeszyty Naukowe Politechniki Śląskiej. Organizacja i Zarządzanie" 2015, 78, p. 281.

<sup>138</sup> C. Zajac, *Zarządzanie zasobami ludzkimi*, Wyższa Szkoła Bankowa, Poznań 2007, p. 94.

The structure of this process is shown in figure 2.1.

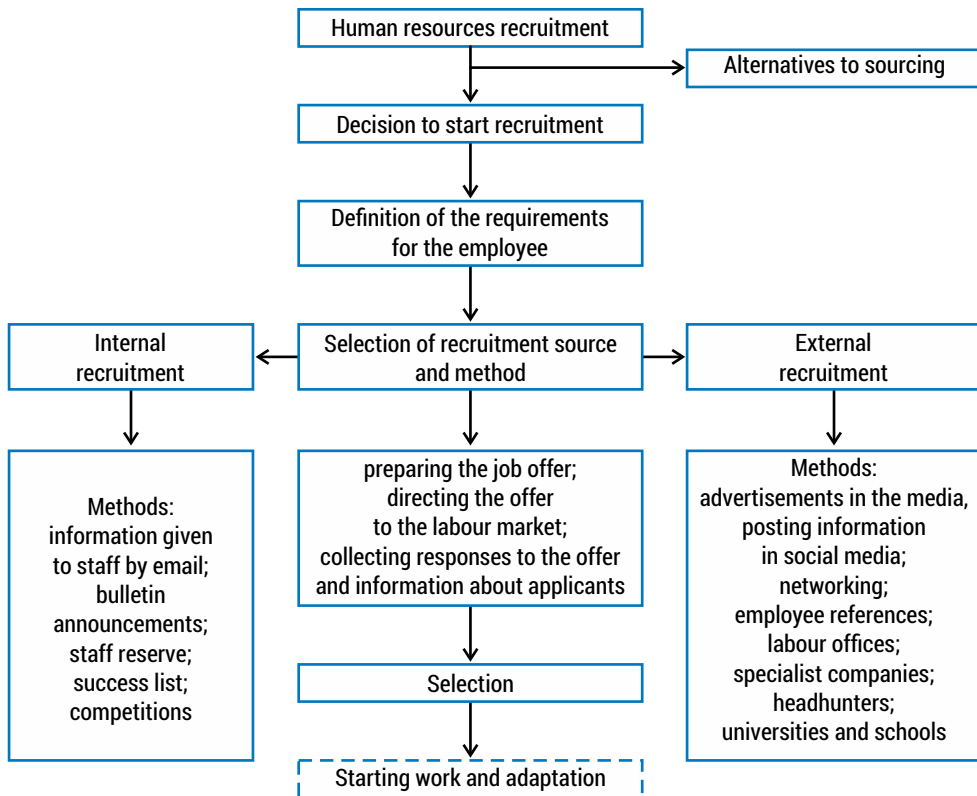


FIGURE 2.1. Structure of the recruitment process

SOURCE: authors' elaboration based on: H. Król, A. Ludwiczynski, *Zarządzanie zasobami ludzkimi. Tworzenie kapitału ludzkiego w organizacji*, Wydawnictwo Naukowe PWN, Warszawa 2006.

In personnel selection, “it is a matter of bringing the characteristics of the job and the individual characteristics of the worker as close as possible”<sup>139, 140, 141</sup>. The requirements for candidates must match the profile of the organisation as well as the financial and organisational capacity of the company<sup>142</sup> (figure 2.2).

<sup>139</sup> J. Koziół, *Wybrane elementy polityki kadrowej*, Akademia Ekonomiczna, Kraków 1992, p. 37.

<sup>140</sup> M. Suchar, *Rekrutacja i selekcja personelu*, C.H. Beck, Warszawa 2003, p. 33.

<sup>141</sup> M. Kostera, *Zarządzanie personelem*, PWE, Warszawa 2010, pp. 43–46.

<sup>142</sup> Q. Hu, J. Yao, X.Z. Zhang, *Selecting people based on person-organisation fit: Implications for in-trateam trust and team performance*, “Human Resource Management Journal” 2021, 31 (1), pp. 293–310.

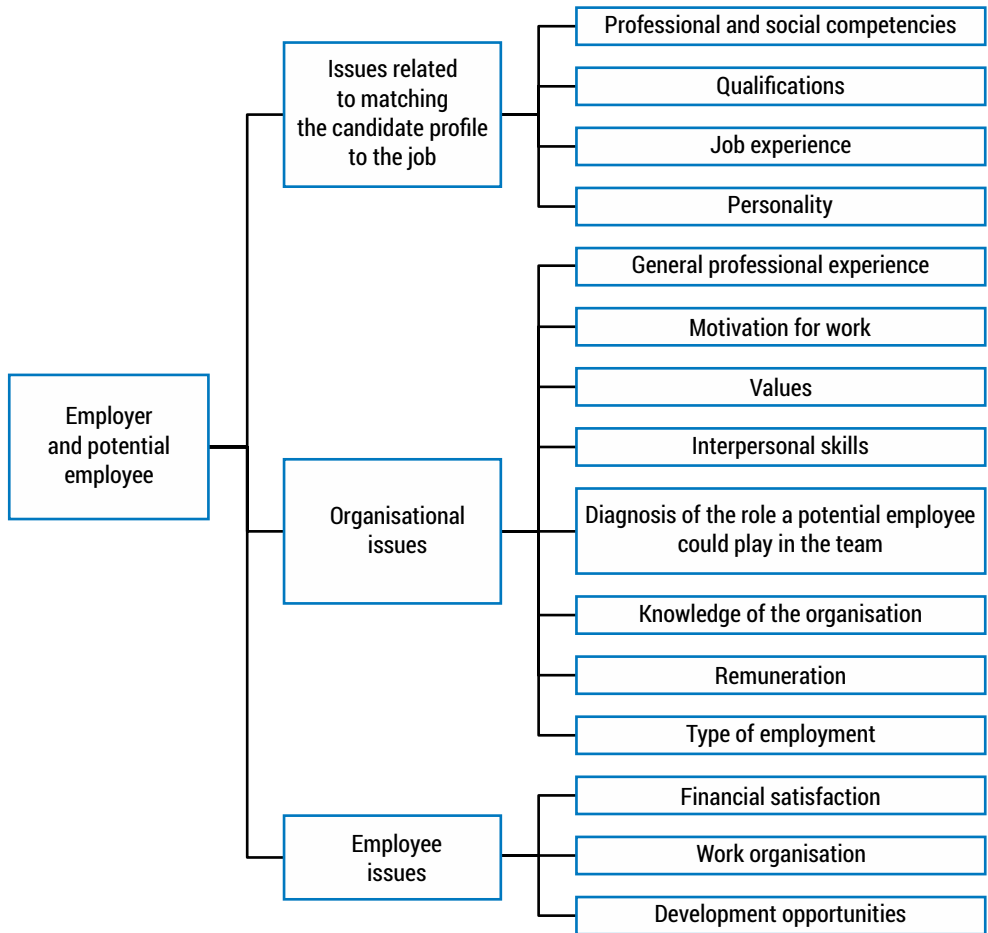


FIGURE 2.2. Matching the candidate's profile with the organisation's profile

SOURCE: authors' elaboration.

Recruitment can be described as a way of communicating with the labour market in order to attract a suitable group of candidates to fill vacancies.<sup>143</sup> Recruitment in social media may be conducted using: profiled advertisements in the form of advertisements displayed only to persons meeting specified criteria, advanced search engine for candidates, selective mailing, thematic groups.<sup>144, 145</sup> Methods and tools, as well

<sup>143</sup> A. Poczowski, *Zarządzanie zasobami ludzkimi. Zarys problematyki i metod*, Antykwa, Kraków 1998, p. 74.

<sup>144</sup> J. Palonka, T. Porębska-Miąc, *Rekrutacja w mediach społecznościowych (social recruiting)*, [http://www.ptzp.org.pl/files/konferencje/kzz/artyk\\_pdf\\_2014/t2/t2\\_978.pdf](http://www.ptzp.org.pl/files/konferencje/kzz/artyk_pdf_2014/t2/t2_978.pdf), [13.01.2020].

<sup>145</sup> A. Muduli, J.J. Trivedi, *Recruitment methods, recruitment outcomes and information credibility and sufficiency*, "Benchmarking" 2020, 27 (4), pp. 1615–1631.

as the course of recruitment stages should be adjusted to the needs and specificity of the industry, then the chance for a successful employee search increases.<sup>146</sup> Upon receiving a sufficient number of applications, the staff selection process begins, using a variety of methods. These include:

- analysis of application documents which aims to verify the qualifications, education and experience of a given person, necessary to fill the position. By this means it is possible to obtain as much information about the candidate as possible in order to initially verify whether he or she meets the basic formal requirements for the vacant position. An advantage of using this method is the possibility to review the career history;<sup>147</sup>
- a job interview, during which the candidate is given the opportunity to find out more about working conditions and expand on the information he or she included in the application. The recruiters aim to make a first assessment of the potential employee. The interview should follow a predetermined order and timeframe. The candidate should at all times be aware of who is the host and who decides on the course of the interview. At the same time he or she should feel comfortable, so the interview should be approached with kindness, interest and understanding, without criticism or disapproval, and without lecturing. In this way the candidate will not be stressed and will be more willing to answer questions, which will be reflected in the results of the interview;<sup>148</sup>
- psychological tests, examining the personality of the candidate, his or her advantages and disadvantages and his or her ability to deal with difficult situations;
- assessment centre, aimed at observing the participants' behaviour during various tasks and exercises. The results of the candidates' work are evaluated by competent judges called assessors. This type of method is most often used to search for high-class specialists;<sup>149</sup>
- work samples, which are essential for some professions, e.g. copywriter, graphic designer, architect;

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<sup>146</sup> D.A. Trytten, R. Browning, C. Thomas, C. Foor, R. Shehab, S. Walden, C. Pan, *Engineering competition team recruitment and integration strategies impact on team diversity*, "Proceedings – Frontiers in Education Conference," FIE 2016, no. 7757523.

<sup>147</sup> P. Urbanek, E. Walińska (ed.), *Ekonomia i zarządzanie w teorii i praktyce. Ekonomia i nauki o zarządzaniu w warunkach integracji gospodarczej*, Tom 9, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2013, p. 253.

<sup>148</sup> A. Armstrong, *Zarządzanie zasobami ludzkimi*, Wydawnictwo Oficyna Wolters Kluwer Business, Kraków 2007, p. 341.

<sup>149</sup> H. Król, A. Ludwiczynski, *Zarządzanie zasobami ludzkimi. Tworzenie kapitału ludzkiego*, Wydawnictwo Naukowe PWN, Warszawa 2006, p. 213.

- evaluation of references, which are usually issued by the last employer. They give the opportunity to obtain new information about the candidate, concerning commitment to work, duties performed and relations with the team. By contacting the candidate's former employer, it is also possible to check the credibility of the documents.<sup>150</sup>

A properly conducted selection allows hiring the best employees, capable of taking up the challenges of the position and adapting to the team.<sup>151</sup> It is a set of desirable and agreed behaviours that allow for the admission to organisational positions of individuals who possess the expected knowledge, professional skills, social competencies and mental qualities.

Universal competencies of all employees in an organisation are:

- effectiveness and efficiency;
- independence;
- responsibility;
- honesty and loyalty;
- ability to cooperate and work as a team.

Business sector employees should also demonstrate:

- business orientation;
- customer focus;
- communication and information skills;
- flexibility and capacity for development;
- creativity and innovation.

The second group of distinguished competencies that follow universal competencies are specific competencies. They may also refer to the organisation as a whole (resulting from the specificity of production, markets, customers). They are a prerequisite for effective action, i.e. for achieving a result, depending on the given situational context.

The last distinguished group are personal competencies. An employee reveals them in his or her work, but they also include those of his or her assets which are not used in the course of professional activity. Thus, personal competences are always broader than job or workplace competencies.<sup>152</sup>

S. Whiddett, S. Hollyforde present a way to level competencies:

- threshold (critical) competencies – a set of minimum requirements an employee must meet in order to effectively perform his or her job;

<sup>150</sup> P. Urbanek, E. Walińska (ed.), *Ekonomia i zarządzanie...*, op. cit., p. 258.

<sup>151</sup> Ź. Nejman, A. Kawecka-Endler, *Analiza procesu rekrutacji pracowników na przykładzie urzędu miasta*, "Zeszyty Naukowe Politechniki Poznańskiej. Organizacja i Zarządzanie" 2013, 61, p. 101.

<sup>152</sup> J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi a motywowanie pracowników*, Difin, Warszawa 2008, pp. 46–47.



- high competencies – determinants of the level of efficiency, quality, effectiveness of work expected from an experienced employee at a given position;
- incompetency – a set of behaviours that are undesirable or reduce effectiveness, make it impossible or significantly hinder performance of duties at a given position.<sup>153</sup>

Threshold competences can be used in the recruitment and selection process of candidates, while a set of behaviours from the incompetency list can be used as a tool for diagnosing employee development needs or disqualification.

In the process of selecting the best candidate for an employee, attention is paid to his or her intellectual abilities, temperament, personality traits (e.g. intro-extroversion, submissiveness-dominance), which determine, among others, thought processes, ease of learning, type of contact with people, manner of expressing emotions. Physical characteristics are also important, especially age, gender, appearance, health. One of the very important variables under study is the type of temperament. It is important because its genesis is dominated by inborn factors; hence, it is very difficult to change. Temperament traits are considered by psychologists as a good indicator of effectiveness in the functioning within the work environment, especially in a situation of organisational stress.<sup>154</sup>

The creator of the division of people into temperament types was Hippocrates, who, through observation, distinguished four basic types of human temperament:

- sanguine – strong, balanced, mobile, cheerful and sociable type; his or her experiences are usually shallow and irregular (so-called “short-lived enthusiasm”), he or she likes change and shows great adaptability;
- choleric – strong and unbalanced type, excitable, emotional; he or she often shows a desire for power, stubbornness and impatience, his or her external reactions are quick, strong and at the same time irregular, however, in difficult situations he or she can be counted on;
- phlegmatic – strong, well-balanced and not very active type; is usually calm, passive and tolerant, and is satisfied with the existing situation, unless it is particularly unfavourable; usually opposes change and does not like to enter new, unknown situations;
- melancholic – weak type, not very resistant to fatigue and influence of strong stimuli from the environment, pessimistically oriented to the world and himself or herself; very sensitive to criticism and easily gets depressed, rather unsociable and likes to isolate himself or herself from the environment.<sup>155</sup>

<sup>153</sup> S. Whiddett, S. Hollyforde, *Modele kompetencyjne w zarządzaniu zasobami ludzkimi*, Oficyna Ekonomiczna, Kraków 2003, p.19.

<sup>154</sup> J.F. Terelak, *Psychologia menedżera*, Wydawnictwo Difin, Warszawa 1999, pp. 82–83.

<sup>155</sup> J. Penc, *Motywowanie w zarządzaniu*, Wydawnictwo Profesjonalnej Szkoły Biznesu, Kraków 1998, pp. 28–29.

Temperament often determines an individual's adaptation to the environment. The sanguine and the phlegmatic adapt much more easily than the choleric or the melancholic. It should be noted that it is rare to find clearly defined types. Mixed types are common, having some of the properties that are attributed to the distinguished definite nervous types. Transforming a temperament type requires a great deal of work on oneself. The choleric temperament is the most difficult for employees to accept. The same is true for some of the characteristics of the phlegmatic or melancholic. However, although the temperament cannot in principle be changed, it is certainly possible to learn new, more balanced behaviours.<sup>156</sup>

The recruitment process is increasingly going beyond the traditional tools, such as the analysis of application documents and the interview. They are treated as a pre-selection stage that starts the whole procedure. In addition, the interview process itself is constantly changing. While examining predispositions and already possessed competencies, non-standard questions are often asked, going beyond the candidate's education, experience or interests. More and more often, the interview takes the form of a psychological interview that allows the interviewer to check, for example, whether the candidate is an assertive and creative person or how he or she manages stress. It is also advisable to use psychological tests to examine professional aptitudes, as well as to create a general profile of the candidate's personality. This kind of diagnosis must be carried out by a psychologist. Situational tests and tasks, i.e. simplified tasks allowing assessing the candidate's skills in activities typical for the job applied for, are also used in the recruitment process. These tasks can be carried out both individually and in groups. They make it possible to test skills in teamwork, communication (written and oral), organising own work. An extended version of this method is the assessment centre (AC), where candidates for employees perform a series of tasks and exercises. During this time, they are observed and assessed by the so-called competency judges, who identify the person who performs best in specific situations, important from the perspective of the organisation.<sup>157</sup>

The final selection is made on the basis of comparing and contrasting the competence profile of individual candidates determined on the basis of various sources of information with the profile of desired competencies at the vacant position and organisational competencies. J. Moczyłowska provides examples of behavioural indicators for the "teamwork" competency (table 2.1).

It is also important that the employee fulfils a role that is consistent with his or her predispositions. Based on his own research, R.M. Belbin identified nine key team roles. The researcher defined them as tendencies to cooperate, specific behaviours, ways of establishing and maintaining contacts. Within these roles, three groups

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<sup>156</sup> L. Milian, *Praca, osobowość, kierowanie*, Wydawnictwo Politechniki Częstochowskiej, Częstochowa 2002, p. 87.

<sup>157</sup> J. Moczyłowska, *Zarządzanie kompetencjami...*, *op. cit.*, pp. 142–143.

were distinguished: task-related (related to action): Shaper, Implementer, Completer Finisher; social (related to people): Co-ordinator, Teamworker, Resource Investigator; intellectual (related to thinking): Plant, Monitor Evaluator, Specialist (table 2.2).

TABLE 2.1. Behavioural indicators of the “teamwork” competency at three levels

<b>Competency cluster – WORKING WITH PEOPLE</b>		
Competency: TEAMWORK		
Level 1	Level 2	Level 3
<ul style="list-style-type: none"> <li>• Encourages others to contribute to the team through their behaviour;</li> <li>• Takes into account the opinions of others and treats their contributions to the team with respect;</li> <li>• Shares experiences and knowledge with colleagues and provides them with information useful for the work of the team.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourages colleagues to participate in teamwork;</li> <li>• Is able to identify when other team members need help or support and provides it to the extent available;</li> <li>• Responds positively to the achievements of others and recognises their contribution to the team.</li> </ul>	<ul style="list-style-type: none"> <li>• Uses knowledge of co-workers’ strengths and knowledge of their interests and development needs to skilfully delegate tasks;</li> <li>• Provides necessary information, analyses and comments on team activities on an ongoing basis;</li> <li>• Ensures that team members have a good understanding of their individual duties and responsibilities as well as team tasks.</li> </ul>

SOURCE: J. Moczyłowska, *Zarządzanie kompetencjami zawodowymi a motywowanie pracowników*, Difin, Warszawa 2008, p. 45.

TABLE 2.2. Team roles according to R.M. Belbin

<b>Role</b>	<b>Characteristic feature</b>	<b>Weaknesses</b>
Plant	Dominating, intelligent, creative, seeks nonstandard solutions, can engage others with his or her enthusiasm	Has problems with communicating with other team members and accepting criticism, often disregards reality
Resource Investigator	Extravert with interpersonal capacity, good negotiator and team ambassador to the outside	Over-optimistic, often loses interest with problems once the initial enthusiasm has passed
Co-ordinator	Dominating, organises objectives, can effectively utilise the team’s resources, careful listener, can motivate others to work	Can be seen as manipulative
Shaper	Action-man, strategist, ambitious with a high need for achievements, dynamic, likes working under pressure, courageous in overcoming obstacles	Easily offends other people, seen as over-dominating, tends to be impulsive and impatient
Monitor Evaluator	Critical and objective, inquisitive, highly intelligent, can carefully evaluate solutions	Low level of empathy, lacking emotional engagement

Role	Characteristic feature	Weaknesses
Teamworker	Creates atmosphere in the team, sensitive to the needs of others, loyal towards the group	Cannot make a decision in difficult situations, prone to the influence of others
Implementer	Perfect executor of projects developed by others, practical, operative, good work organiser	Of rigid views, slowly reacts to new opportunities and situations, can have problems with accepting changes
Completer Finisher	Focused on a specific result, observes deadlines, scrupulous, applies to provisions and procedures	Unwilling to delegate work to others, over-sensitive towards details
Specialist	Professional, independent, having initiative, great knowledge and skills	Lacks a wider perspective to things, of little interest into other people

SOURCE: R.M. Belbin, *Twoja rola w zespole*, GWP, Gdańsk 2003.

Carrying out the popular Belbin test, or another test of a similar nature, which allows to determine the roles taken by particular members of a team, enables an appropriate division of work in a group. Each role characterises individuals in terms of strengths and weaknesses. Knowing the strengths and weaknesses, one can use the strengths in action and work on the areas that need improvement.<sup>158</sup>

In the course of the team work, there are moments when it is necessary to decide on completing the team with an extra member. Groups that are experiencing difficulties or that have entered a new phase of development usually initially regard the new person with distance. Therefore, to prevent this from happening, the recruitment process should be carefully thought out and planned. Below is an example of a recruitment form that may be helpful in completing the team so that the new employee has a chance to adapt quickly (table 2.3).

TABLE 2.3. Sample recruitment form used to complete project team members in a manufacturing company

Characteristics needed by project team members	Candidates		
	Person X	Person Y	Person Z
Understand the importance of teamwork in relation to organisational policies and the future of the company	4	4	2
Experience of working in a team	4	3	1
Knowledge of the organisation	4	4	4
Knowledge of the specifics and requirements of production	3	3	4
Interpersonal skills	4	3	2
Ability to support and promote change	3	3	3

<sup>158</sup> B. Kromer, M. Jackiewicz, *Role pracowników w tworzeniu efektywnego zespołu*, "Zeszyty Naukowe Wydziału Nauk Ekonomicznych" 2015, 19, pp. 89–102.

Characteristics needed by project team members	Candidates		
	Person X	Person Y	Person Z
Ability to think creatively and solve problems	4	4	4
Conflict resolution skills; diplomacy	4	2	1
Presentation skills	3	3	3
Knowledge of company regulations, procedures and legal standards	4	4	4
Analytical skills	4	4	4
Positive mindset	4	3	3
Readiness for development	4	3	3
Working under time pressure	3	3	3
Technical skills	4	4	4
Computer literacy	5	4	5
Ability to plan, budget and prioritise	3	3	1
Ability to delegate tasks and relinquish control at appropriate times	3	2	2
Leadership skills	3	2	1
Ability to transfer knowledge	4	4	4
Strong commitment to customer service	3	2	1
Freedom to exercise a high level of authority	4	4	2
Average points:	3.68	3.23	2.77

Legend: 5 – very strong, 4 – strong, 3 – medium, 2 – weak, 1 – no; no rating – can't tell

SOURCE: authors' elaboration based on: D. Mackin, *Budowanie zespołu. Zestaw narzędzi*, Dom Wydawniczy REBIS, Poznań 2011, pp. 31–32.

Once the hiring decision has been made, it is time to implement the organisational reality. The new member of the team learns the specifics of work. It is important to ensure that the adaptation is as smooth and quick as possible.

Small teams (of six to twelve people) are best suited to complex, highly skilled objectives. However, if the tasks are simple and repetitive and the workload requires additional staff, there is no obstacle to organise a larger group. Even teams of fifteen to sixteen people can be effective. If the task requires specialised technical and organisational skills, the team should include a sufficient number of people capable of performing the task, as well as people who will need to manage the product or liaise with the client. Members of large teams (fifteen to twenty-five people) must be mature enough to appropriately divide tasks and responsibilities.<sup>159</sup>

<sup>159</sup> D. Mackin, *Budowanie zespołu. Zestaw narzędzi*, Dom Wydawniczy REBIS, Poznań 2011, pp. 31–32.

## 2.2. Forms of staff employment

Employment is a type of professional activity, expressed in paid involvement of human forces and skills (human capital) in the activity of an economic entity. Each such employment is a kind of contract between the employee and the employer and is subject to legal regulations. On the basis of this contract, the employee undertakes to perform work of a specified type for the employer and under his or her direction, at a place and time designated by the employer, and the employer – to employ the employee against remuneration.<sup>160</sup>

### Forms of employment in Poland

There are various forms of employment in Poland. Due to the legal nature of contracts, they are divided into different forms pursuant to:

- the Labour Code (Polish k.p.), i.e. the Act of 26 June 1974 Labour Code (Polish Dz.U. 2019, item 1040, as amended), which is the primary source of labour law; various types of employment contracts are concluded on the basis of this act;<sup>161</sup>
- the Civil Code (Polish c.c.), i.e. the Act of 23 April 1964 Civil Code (Polish Dz.U. 2019, item 1145), which regulates civil law relations between natural persons and legal persons; among others, contracts of mandate and contracts for specific work are concluded on the basis of this act.<sup>162</sup>

A specific form of employment is teleworking, which can be carried out on the basis of: an employment contract, a contract of mandate, a contract for specific work, an agency contract, as a self-employed person.<sup>163</sup> The characteristics of the contracts are shown in table 2.4.

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<sup>160</sup> *Zeszyt informacyjny: Rodzaje umów przy podejmowaniu zatrudnienia*, Wojewódzki Urząd Pracy w Warszawie Centrum Informacji i Planowania Kariery Zawodowej, Warszawa 2019, [https://wupwarszawa.praca.gov.pl/documents/47726/695264/Rodzaje%20um%C3%B3w%20przy%20podejmowaniu%20zatrudnienia\\_2019.pdf/1fbf2de5-486f-4b3c-9509-4e97f3a72c76?t=1582207208000](https://wupwarszawa.praca.gov.pl/documents/47726/695264/Rodzaje%20um%C3%B3w%20przy%20podejmowaniu%20zatrudnienia_2019.pdf/1fbf2de5-486f-4b3c-9509-4e97f3a72c76?t=1582207208000), p. 3, [17.01.2020].

<sup>161</sup> *Kodeks Pracy 2016 z komentarzem*, Wydawnictwo INFOR, Warszawa 2015.

<sup>162</sup> *Kodeks Cywilny. Komentarz*, Wydawnictwo C.H. BECK, Warszawa 2014.

<sup>163</sup> E. Pietrzak, *Prawna regulacja telepracy w Polsce i Unii Europejskiej*, Wydział Prawa i Administracji Uniwersytetu Łódzkiego, Łódź 2014.

TABLE 2.4. Characteristics of forms of employment in Poland

Characteristics of forms of employment	The most common forms of employment			
	Employment contract	Contract of mandate	Contract for specific work	Sole proprietorship
Definition of contracts	A legal act consisting of the submission of consensual statements of intent by an employee and an employer in which the employee undertakes to perform work in person for the employer under his or her direction and at a time and place determined by him or her, and the employer undertakes to pay the agreed remuneration	It is a contract in which one party undertakes to diligently execute a mandate and the client undertakes to pay remuneration (in the case of a paid contract)	It is commonly referred to as a contract where one party undertakes to perform a specific work and the ordering party undertakes to pay remuneration	A business activity is a profit-making activity within manufacturing, construction, trade, services, it also involves exploration, recognition and extraction of minerals, as well as a professional activity which is conducted in an organised and continuous manner
Legal provisions on contracts	the Labour Code	the Civil Code	the Civil Code	<ul style="list-style-type: none"> <li>• the Civil Code,</li> <li>• Personal Income Tax Act of 26 July 1991,</li> <li>• Act of 11 March 2004 on Value Added Tax,</li> <li>• Act of 2 July 2004 on freedom of economic activity</li> </ul>
Types of contracts	Employment contract concluded for: <ul style="list-style-type: none"> <li>• trial period (up to a maximum of 3 months),</li> <li>• fixed-term period (maximum 3 such contracts for a total period of 33 months. If these limits are exceeded, the contract is transformed into an employment contract for an indefinite period),</li> <li>• indefinite period</li> </ul>	Contract of mandate	Contract for specific work	Depending on the type of business, one may or may not sign a contract to provide services. When setting up a sole proprietorship, one must choose the form of taxation: <ul style="list-style-type: none"> <li>• taxation under general rules,</li> <li>• flat-rate taxation,</li> <li>• lump sum on registered income,</li> <li>• tax card.</li> </ul>

Characteristics of forms of employment	The most common forms of employment			
	Employment contract	Contract of mandate	Contract for specific work	Sole proprietorship
Form of contract conclusion	<ul style="list-style-type: none"> <li>• written</li> </ul>	<ul style="list-style-type: none"> <li>• written (evidential character),</li> <li>• oral</li> </ul>	<ul style="list-style-type: none"> <li>• written (evidential character),</li> <li>• oral</li> </ul>	<ul style="list-style-type: none"> <li>• written – depending on the object of the activity and individual preferences of the person carrying out the activity</li> </ul>
Periods of notice	<p><b>Contract for a trial period:</b></p> <ul style="list-style-type: none"> <li>• 3 working days if the trial period does not exceed 2 weeks,</li> <li>• 1 week if the trial period is longer than 2 weeks,</li> <li>• 2 weeks if the trial period is 3 months</li> </ul> <p><b>Fixed-term contract and contract for an indefinite period:</b></p> <ul style="list-style-type: none"> <li>• 2 weeks if the employee has been employed for less than 6 months,</li> <li>• 1 month, if the employee has been employed for at least 6 months,</li> <li>• 3 months, if the employee has been employed for at least 3 years</li> </ul>	<p>A contract of mandate may be terminated at any time and by either party. The parties may specify in the contract any period of notice</p>	<ul style="list-style-type: none"> <li>• no period of notice,</li> <li>• it is possible to withdraw from a contract for specific work and it may be due to various circumstances,</li> <li>• withdrawal may be made by the ordering party or the person accepting the work,</li> <li>• withdrawal from the contract may take place at any time when the work is not completed,</li> <li>• the ordering party in such a situation is obliged to pay the remuneration, deducting what the contractor has saved because of the non-performance of the work</li> </ul>	Does not apply



Characteristics of forms of employment	The most common forms of employment			
	Employment contract	Contract of mandate	Contract for specific work	Sole proprietorship
Minimum wage guarantee	An employee with a full-time employment contract is guaranteed a minimum salary of PLN 2,800 gross (amount applicable in 2021)	A minimum wage of PLN 18.30 per hour gross (amount applicable in 2021)	Does not apply	Does not apply
Social benefits from the Social Insurance Company (ZUS)	<ul style="list-style-type: none"> <li>the possibility of registering family members for health insurance (these persons will be able to use public health services free of charge),</li> <li>paid sick pay/sickness benefit for incapacity for work (the insured person becomes entitled to sick pay after a 30-day waiting period)</li> </ul>	<ul style="list-style-type: none"> <li>the possibility of registering family members for health insurance (these persons will be able to use public health services free of charge),</li> <li>paid sickness allowance when taking out voluntary sickness insurance (the insured person becomes entitled to sickness benefit after a 90-day waiting period)</li> </ul>	No benefits from the Social Insurance fund	<ul style="list-style-type: none"> <li>the possibility of registering family members for health insurance (these persons will be able to use public health services free of charge),</li> <li>paid sickness allowance when taking out voluntary sickness insurance (the insured person becomes entitled to sickness benefit after a 90-day waiting period)</li> </ul>

Characteristics of forms of employment	The most common forms of employment			
	Employment contract	Contract of mandate	Contract for specific work	Sole proprietorship
Advantages of the contract in question	<ul style="list-style-type: none"> <li>exercising rights under the Labour Code (e.g. annual leave)</li> <li>minimum wage guarantee,</li> <li>protection against dismissal at any time (notice periods depending on length of service and type of employment contract)</li> <li>social security contributions</li> </ul>	<ul style="list-style-type: none"> <li>the work is carried out without supervision,</li> <li>may be carried out by third parties,</li> <li>social security contributions on a contribution basis</li> </ul>	<ul style="list-style-type: none"> <li>freedom as to the place, time and manner of performance of the work,</li> <li>the work does not have to be carried out in person unless this is provided for in the contract,</li> <li>the work is carried out without supervision</li> </ul>	<ul style="list-style-type: none"> <li>short time to set up,</li> <li>independent job creation,</li> <li>independent decision-making on activities,</li> <li>irregular working hours,</li> <li>social security contributions</li> </ul>
Disadvantages of the contract in question	<ul style="list-style-type: none"> <li>strictly defined place and time of work</li> <li>the employee may not entrust the performance of his or her work to a third party</li> </ul>	<ul style="list-style-type: none"> <li>the Labour Code does not apply, and the contractor is entitled only to the remuneration specified in the contract,</li> <li>the period of work is only in certain cases counted as length of service with the employer if an employment relationship with that employer is established,</li> <li>may be free of charge</li> </ul>	<ul style="list-style-type: none"> <li>the risk as to the performance and quality of the work is borne by the person accepting the order,</li> <li>no social security contributions, only tax deductions</li> </ul>	<ul style="list-style-type: none"> <li>risk of project failure,</li> <li>financial and legal responsibility (keeping records for tax purposes, social security, etc. if the self-employed does not use a specialist in this area),</li> <li>when running a business, working hours are often longer than 8 hours</li> </ul>

SOURCE: authors' elaboration based on: *Charakterystyka form zatrudnienia*, <https://www.skanska.pl/siteassets/o-skanska/kariera/candidate-briefing-pack-ukryta/pliki-pdf-na-strone/charakterystyka-form-zatrudnienia.pdf>, [17.01.2020].

Employment contract is the most common type of employer-employee contract, which gives the full range of rights under the Labour Code. With this type of contract, the employee is entitled to holiday, maternity, paternity and health leave. During illness, the employee receives remuneration paid by the employer or the Social Insurance Company (ZUS) and may benefit from free access to medical services. In the event of an accident, social insurance covers the costs of treatment and rehabilitation and, in the event of incapacity for work, gives the right to apply for a pension. In the event of losing job, the employee may be eligible for unemployment benefits. At the end of working career, the employee is paid a pension. The employment contract has several forms:

- contract for a trial period – usually the first contract concluded with the employer, its duration may be up to 3 months. During its duration, both the employer and the employee have the opportunity to examine each other – the employer in terms of skills and qualifications of the employee and his or her employability to perform a specific type of work, the employee in terms of working conditions, scope of activities or prevailing atmosphere;
- fixed-term contract – when signing a contract with an employee, the employer specifies how long the person will be employed. After that time there is no obligation to renew it. Fixed-term contracts can be signed by an employer with one employee only three times. The period of employment cannot exceed 33 months (if it is exceeded, it automatically results in an employment contract for an indefinite period of time). During the fixed-term contract, the employee is entitled to annual leave, sick leave, free health care, remuneration and a notice period. If the contract is concluded for a period not exceeding 6 months, it can be terminated earlier only by mutual agreement of the parties. If the contract is longer than 6 months, the notice period is 2 weeks, but only if a relevant contractual clause is included;
- contract for an indefinite period – the type of contract most desired by the employee. Employers offer such contracts to valuable individuals in order to keep them in the organisation as long as possible. The period of notice depends on the length of service:
  - period of service not exceeding 6 months – 2 weeks,
  - period of service of more than 6 months – 1 month,
  - period of service of more than 3 years – 3 months.

An employee employed on the basis of this contract is provided with all privileges under the Labour Code, i.e.:

- insurance (pension, disability, sickness, health);
- wages protection (must not be less than the minimum wage and must be paid on time);
- protection of working time;
- permanence of the employment relationship (period of notice);
- holiday entitlements;

- protection for certain groups (women, young persons, people with disabilities);
- special rights for certain occupational groups.<sup>164</sup>

The employment contract must have a specific legal form, i.e. it should be drawn up in writing in two identical copies. One copy of the contract is given to the employee, the other remains with the organisation and is included in the employee's personal file. If the contract is concluded verbally, the employer must confirm it in writing at the latest on the day the employee starts work.

The employment contract specifies:

- parties to the contract – the name of the employer and the person representing him or her, and the name of the employee;
- type of contract (e.g. fixed-term contract);
- date of its conclusion;
- type of work, i.e. specification of the employee's job, the function he or she will perform;
- job title or activities to be performed;
- place of work;
- duration of work (e.g. ¼ time, ½ time, full time);
- remuneration, by indicating the basic salary, bonuses and allowances;
- starting date of work and, in the case of fixed-term contracts, the date on which the work ends.

Under the Labour Code, each employment contract should be signed by two persons: the employee and a person authorised by the employer.<sup>165</sup>

Contract of mandate – the subject of the contract is the performance by the contractor of a specific legal act (against payment or free of charge) for the benefit of the ordering party. Parties to the contract of mandate can be any natural or legal persons, provided that they have the capacity to perform legal actions. The ordering party orders performance of specific acts, and the contractor carries out the order. A contract of mandate may be paid or unpaid. In case of a paid assignment, the amount of remuneration should be specified in the contract in such a way that the remuneration for each hour of assignment performance is not lower than the minimum hourly rate. In the case of a gratuitous assignment, it is necessary to include a provision on the absence of remuneration in the contract. If there is no such provision, and the contract or the circumstances do not indicate that the contractor undertook to perform the assignment without remuneration, the assignment shall be deemed to be performed against remuneration. The contractor must keep the ordering party informed on the progress of the contract and must submit a report at the end of the contract. Contracts of mandate are agreements of due diligence. The ordering party can pay health insurance or pension contributions for the contractor.

<sup>164</sup> *Zeszyt informacyjny: Rodzaje umów przy podejmowaniu zatrudnienia...*, op. cit., pp. 5–8.

<sup>165</sup> *Ibidem*, p. 11.

Unfortunately, this type of contract has many disadvantages, including: the contractor is not entitled to paid holidays and sick leave, the employer can dismiss the employee at any time, and there is no obligation to pay overtime.<sup>166</sup>

Contract for specific work – this type of employment contract is very similar to a contract of mandate, with the difference that the employer does not pay any contributions, so the employee can earn more. The contract for specific work also does not count towards period of service and there is no possibility to take paid holiday or sick leave.<sup>167</sup> An unquestionable advantage of the above-mentioned contract is the fact that the ordering party does not care when and how a given task is performed, only the final result is important. Additionally, in the case when the work has a creative character and the contract for specific work transfers copyright to the ordering party, it is possible to apply quite high tax deductible costs – 50%. In other cases, tax deductible costs amount to 20%.<sup>168</sup>

Sole proprietorship – self-employment; a situation in which an individual takes up an economic activity on his or her own account and under their own responsibility (sole proprietorship). The benefits of self-employment are mutual – for both the employer and the self-employed person:

- the employer reduces costs and can therefore offer the self-employed a higher salary than under an employment contract;
- the self-employed establishes how and when he or she works;
- the self-employed does not have to limit himself or herself to working with just one client;
- the self-employed is able to make a number of deductions. The self-employed can deduct expenses related to travel, fuel, training, items used in his or her business such as telephone, computer, software, etc. Moreover, if the seat of his or her company is a private flat, he or she can also deduct part of the rent;
- the self-employed can benefit from a VAT deduction on the purchase of goods and services;
- the self-employed can benefit from tax reliefs;
- the self-employed can pay reduced social security contributions;
- the self-employed can benefit from loans and subsidies for small businesses.

Persistent and independent people can fulfil themselves in this increasingly popular form of employment.<sup>169</sup> However, with this type of contract there exists a risk of failure. In addition, the founder of a one-person business has the financial and legal responsibility (keeping tax and social security documents, etc.) if he or she does not use the services of a person specialised in this field).

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<sup>166</sup> *Zeszyt informacyjny: Rodzaje umów przy podejmowaniu zatrudnienia...*, op. cit., pp. 19–20.

<sup>167</sup> *Rodzaje umów pracowniczych – charakterystyka*, <https://firmaodkuchni.pl/rodzaje-umow-pracowniczych-charakterystyka/>, [15.01.2021].

<sup>168</sup> *Zeszyt informacyjny: Rodzaje umów przy podejmowaniu zatrudnienia...*, op. cit., p. 21.

<sup>169</sup> A. Lazarowicz, *Samozatrudnienie – poznaj zalety prowadzenia działalności gospodarczej*, <https://poradnikprzedsiębiorcy.pl/-dlaczego-samozatrudnienie>, [21.01.2021].

## Forms of employment in Lithuania

On 1 July 2017, a new, more flexible Labour Code entered into force in Lithuania. The main objectives of the liberalisation of the labour law were to introduce more flexible forms of work, reduce the administrative burden for employers, and increase Lithuania's competitiveness in the European labour market. At the same time, the aim of the amendments to the Lithuanian Labour Code were aimed at adapting it to the changes taking place on the labour market and the realities of the modern economy. New types of employment contracts were introduced, more possibilities to choose the time of performing work (flexible working hours, individual working hours) were created, the termination of contracts was facilitated, and the related costs for the employer were reduced.

In Lithuania, employment contracts are most often concluded for an indefinite period. However, the new Labour Code provides for more types of employment contracts, depending on the specifics and needs of the company:

- a fixed-term contract for up to 2 years to perform the same function. In the case of appointing different functions, the same employer may conclude successively several fixed-term contracts, but their total duration may not exceed 5 years;
- a temporary contract (for up to 3 years) with a temporary worker who is employed by a temporary employment agency. The temporary worker undertakes to perform work for an entity designated by the temporary employment agency and the agency undertakes to pay him or her a salary on this account;
- project-based employment contract – a fixed-term contract under which the employee undertakes to perform work in order to achieve a specific project result. The contract is concluded for a period of up to 2 years with a new employee being hired, or up to 5 years in the case of a replacement of another type of employment contract already in force with the employee;
- a job-sharing contract, where two workers share one job, but neither worker may exceed the maximum working time limit;
- a contract of employment for several employers, concluded between one employee and two or more employers for the purpose of carrying out the same function (for example, one lawyer or accountant is employed by all the companies in a group of companies). Such a contract must specify the principal employer who will be responsible for determining the employee's work schedule and paying social security contributions;
- a seasonal contract is concluded when the work is of a temporary nature due to natural and climatic conditions, it can be concluded for a period of up to 8 months. Every employment contract should contain the following obligatory elements: the indicated place of work of the employee, the functions performed by him or her and the remuneration.

Depending on the employer's needs, he or she may additionally enter into non-compete or confidential information protection agreements with the employee under the terms of the Labour Code. The employment contract is concluded in 2 copies, amendments to it are also made in writing.<sup>170</sup>

### Working time

The average working time of an employee, including overtime, should not exceed 48 hours per week or, in the case of multiple jobs, 60 hours per week or 12 hours per day. The standard is a 5-day working week, which may be extended to 6 days. In the course of 7 consecutive days overtime may not exceed a total of 8 hours (12 hours if agreed in writing by the employee). The maximum number of overtime hours per year are 180 hours, unless a higher number is stipulated in collective agreements.

### Termination of employment contract

The employment contract may be terminated at any time by mutual agreement of both parties (table 2.5).

TABLE 2.5. Termination of employment contract

<b>Grounds for termination of the employment contract</b>	<b>Period of notice</b>	<b>Amount of severance pay (average monthly salary of the employee)</b>
Mutual agreement of the parties	Response to the proposal must be provided within 5 working days	Depends on the agreement of the parties
<b>On the initiative of one of the parties:</b>		
on the initiative of the employee without valid reason	20 working days	0
on the employee's initiative for a good reason (downtime, unpaid wages, sickness, disability, caring for a sick person, retirement)	5 working days	1 (if the employee has been employed for 1 year or more) or 0.5 (if the employee has been employed for less than 1 year)

<sup>170</sup> Litwa. *Przewodnik po Rynku*, Polska Agencja Inwestycji i Handlu S.A., Warszawa 2018, pp. 32–33.

<b>Grounds for termination of the employment contract</b>	<b>Period of notice</b>	<b>Amount of severance pay (average monthly salary of the employee)</b>
on the employer's initiative without any fault on the part of the employee (valid reasons: the performed function becomes redundant, unsatisfactory work performance, refusal to work when conditions change, refusal to work in case of transfer of part or all of the business, liquidation of the employer)	1 month (if the employee has been employed for 1 year or more) or 2 weeks (if the employee has been employed for less than 1 year). Additional condition: if the employee is raising a child under 14 years of age or if the employee has less than 5 years left before retirement. Additional condition: if the employee is disabled or if there is less than 2 years before the employee's retirement	2 (if the employee has been employed for 1 year or more) or 0.5 (if the employee has been employed for less than 1 year). In case of long-term continuous service with the same employer (more than 5 years) the employee is entitled to an additional severance pay from the Long-term Severance Pay Fund
on the employer's initiative due to a fault of the employee	0	0
the employer's will	3 working days	6 working days
lack of will by either contracting party	0	In the event of health reasons, replacement of the employee or conflict of employment contract with the law: 1 (if the employee has been employed for 1 year or more) or 0.5 (if the employee has been employed for less than 1 year)

SOURCE: *Litwa. Przewodnik po Rynku*, Polska Agencja Inwestycji i Handlu S.A., Warszawa 2018, pp. 35–36.

The new Labour Code introduced shorter notice periods for termination of contracts and reduced the amount of severance pay paid by the employer. At the same time, a new institution – the Long-Term Severance Pay Fund – was established, which pays additional benefits to employees with a continuous length of service (over 5 years) with the same employer. In case of such employees, upon termination of the contract, the employer pays a severance pay amounting to 2 average monthly salaries, and after 3 months from the date of dismissal, if the employee is not employed by the same employer again, he or she may apply for an additional benefit from the Long-Term Severance Fund. In addition, a new possibility of termination of the contract – at the employer's will – has been introduced, where the employer may terminate the employment contract without specifying reasons, giving the employee at least 3 working days' notice. However, in such a situation the employer must pay the employee a severance pay of 6 average monthly salaries.



## Flexible forms of employment in the European Union

Globalisation processes force companies to adapt dynamically. This affects organisations' strategies in the labour market, e.g. through the need to adapt the structure of employment to changing demand. As a result of these changes, employers have more diverse and changing demands towards their workforce in order to maintain their competitive position.<sup>171</sup>

Market needs have accelerated a dynamic development of flexible forms of employment which transfer risk from the employer to the employee and entail a reduction in fixed production costs. The needs of employers were met with the technical development of providing work in a previously unknown way (e.g. remote work), which contributed to activating social groups that were excluded from the labour market. With reference to the EU law on employment relationships, the following features are particularly recognised as differentiating flexible forms of employment from the typical model: fixed-term employment, multi-entity employment relationship on the part of the employer (temporary work), a system of task-based working time, and remote working (teleworking). Flexible forms of employment may also include employment based on civil law contracts, as well as some flexible forms of working time regulated in the Labour Code. A circumstance that is emphasised particularly in Western European countries is the so-called gender time gap,<sup>172</sup> which is characterised by the predominance of part-time employment among women.<sup>173</sup> An important aspect of the development of flexible forms is the use of solutions that allow a friendly combination of work and family life (Work Family Balance-WFB).

Council Directive 91/383/EEC of 25 June 1991 supplementing the measures to encourage improvements in the safety and health at work of workers with a fixed-duration employment relationship or a temporary employment relationship is an example of promoting certain atypical forms of employment by European Union legislation.<sup>174</sup> In particular, the directive draws attention to the obligation of equal treatment as regards working conditions for workers employed in these forms, as well as guaranteeing their safety and health at work. Another normative act worth noting is Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996

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<sup>171</sup> T. Gajderowicz, *Zróżnicowanie warunków zatrudnienia w warunkach globalizacji*, "Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach" 2016, 271, p. 190.

<sup>172</sup> S. Lehdorff, *Working time trends and prospect in Europe*, paper presented at a conference organised by the Institute of Labour and Social Affairs on 18.10.2013.

<sup>173</sup> M. Latos-Miłkowska, *Tendencje rozwoju przepisów o czasie pracy wobec prognoz gospodarczych i społecznych*, [in:] H. Strzemińska, M. Bednarski (ed.), *Czynnik czasu w nowej gospodarce. W jakim kierunku zmierzamy?*, Warszawa 2014, p. 52.

<sup>174</sup> Council Directive 91/383/EEC of 25 June 1991 supplementing the measures to encourage improvements in the safety and health at work of workers with a fixed-duration employment relationship or a temporary employment relationship, OJ L 206, 29.7.1991.

concerning the posting of workers in the framework of the provision of services.<sup>175</sup> It was intended to guarantee workers temporarily posted to work in another country suitable employment conditions adapted to the workplace in which they are employed.

The establishment of flexicurity policy principles by the European Commission Significant was significant for the development of Community regulation of flexible employment.<sup>176</sup> Flexicurity is aimed at modernising European labour markets and combating unemployment. In the presented communication, the European Commission identified the main areas and principles of flexicurity policy, namely: improving the implementation of the European Union’s strategy for growth and employment as well as strengthening the European social model, balancing the rights and obligations of workers and employers, adapting flexible employment to the diverse circumstances and needs of individual European Union Member States, reducing disparities between those without stable employment, those working under non-standard contracts, including part-time employment, and those employed on standard contracts on a full-time basis, developing flexible forms of employment, supporting and promoting equality in employment, creating balanced political solutions in order to build mutual trust between social partners, public authorities and institutions, ensuring fair distribution of costs and benefits resulting from the policy of flexible forms of employment. The Council of the European Union pointed out that the principles of flexicurity represent a compromise between flexibility and security in the labour market and are intended to help employers and employees take advantage of the opportunities offered by globalisation.<sup>177</sup>

The following non-standard forms of work can be identified on the Community labour market: casual work, self-employment, employee sharing, job sharing, portfolio work, ICT-mobile work, interim management, voucher-based work, collaborative self-employment (table 2.6).

TABLE 2.6. Alternative forms of work identified in EU countries

<b>Forms of employment</b>	<b>Definition</b>	<b>EU countries in which the form occurs</b>
Casual work	An employment relationship characterised by lack of constancy and regularity, the employer does not expect to employ the worker on a permanent basis	Belgium, Croatia, France, Ireland, Romania, Slovakia, Slovenia, Sweden, Poland, Netherlands, Hungary, Italy

<sup>175</sup> Directive 96/71/EC of the European Parliament and of the Council of 16 December 1996 concerning the posting of workers in the framework of the provision of services OJ L 18, 21.1.1997.

<sup>176</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Towards Common Principles of Flexicurity: More and better jobs through flexibility and security (COM 2007/359).

<sup>177</sup> A.M. Świątkowski, *Flexicurity – unijna strategia elastycznego zatrudnienia*, „Polityka Społeczna” 2015, 1, p. 1.

<b>Forms of employment</b>	<b>Definition</b>	<b>EU countries in which the form occurs</b>
Self-employment	Situation where an individual sets up a business for his or her own account and on his or her own responsibility. The self-employed person carries out tasks entrusted to him or her by third parties or subcontractors	All EU countries
Interim management	Employment of highly specialised experts that perform a specific task or solve a specific problem in a company	Czech Republic, France, Greece, Lithuania, Norway, Hungary
Employee sharing	A form of employment in which a group of employers jointly employs workers and is jointly responsible for them	Austria, Belgium, Bulgaria, Czech Republic, Finland, France, Germany, Greece, Hungary, Luxembourg
Job sharing	An employment relationship in which a single employer employs two or more employees for a single position	Czech Republic, Hungary, Ireland, Poland, Slovakia, Slovenia, Italy
ICT-mobile work	Work performed with the aid of information and telecommunications technology, such as networks, laptops, mobile phones and the Internet, so that the employee performs duties permanently or partially outside the employer's main office	Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Hungary, Lithuania, Latvia, Netherlands, Norway, Portugal, Slovakia, Slovenia, Sweden In the course of the pandemic: all EU countries
Platform work	Work in which an employee performs a service for his or her employer's client using online platforms and mobile applications. The employer charges the employee a commission on the job	Austria, Belgium, Bulgaria, Czech Republic, Croatia, Denmark, Greece, Estonia, Finland, France, Germany, Ireland, Italy, Lithuania, Latvia, Netherlands, Poland, Slovenia, Spain, Sweden
Portfolio work	Work involving small jobs for a number of different clients by a freelancer, self-employed or micro-entrepreneur	Cyprus, Denmark, Greece, Latvia, Lithuania, Portugal, Spain, Hungary, Italy
Voucher-based work	An employment relationship in which the employee receives vouchers rather than cash payment as remuneration for the performed work	Austria, Belgium, France, Greece, Lithuania, Italy
Collaborative self-employment	Cooperation between self-employed workers (sometimes also between small and medium-sized enterprises) that allows them to carry out economic activities together	Austria, Belgium, Cyprus, France, Germany, Greece, Hungary, Italy, Lithuania, Netherlands, Spain, Sweden

SOURCE: *Alternatywne formy pracy*, [https://www.parp.gov.pl/storage/publications/pdf/Alternatywne-formy-pracy\\_31-03.pdf](https://www.parp.gov.pl/storage/publications/pdf/Alternatywne-formy-pracy_31-03.pdf), [24.01.2021].

Casual work is an employment relationship characterised by a lack of constancy and regularity. The European Parliament defines it as “irregular or intermittent, with no expectation of permanent employment, with the possibility of irregular and unpredictable hours or work schedules”.<sup>178</sup> The forms that casual work takes differ from one EU Member State to another.

The Eurofound distinguishes between two types of casual work:

- intermittent work: the employer asks the worker regularly or irregularly to carry out a specific task, often related to an individual project or seasonal work. He or she hires him or her for a fixed period of time, which covers either the completion of a task or a certain number of days of work. This form of employment can be found in Belgium, Croatia, France, Hungary, Italy, Romania, Slovakia and Slovenia;
- on-call work: involves a continuous employment relationship between the employer and the employee, although the employer does not provide the employee with permanent work but has the possibility to call on the employee to work when needed. This form of employment has emerged or gained importance over the last decade in Ireland, Italy, the Netherlands and Sweden. Such a system is favourable for the employment of, e.g., waiters who are given instructions for, say, 20 hours of work.<sup>179</sup>

Self-employment occurs when a natural person takes up an economic activity for his or her own account and on his or her own responsibility. A self-employed person is in this case an individual entrepreneur who performs tasks entrusted to him or her by third parties, the so-called ordering parties.<sup>180</sup> The category of self-employed includes a wide variety of occupations – both traditional and innovative. In such terms the self-employed can be grouped into five categories:

- entrepreneurs who run their businesses with the help of employees;
- traditional “freelancers”, who must meet certain requirements to work in their profession;
- craftsmen, tradesmen and farmers who represent traditional forms of self-employment. These individuals often work with their family members and possibly with a small number of paid employees;
- the self-employed in new professions requiring specialised skills;
- the self-employed in non-specialist skilled occupations who run their businesses without the assistance of employees, but are sometimes assisted by family members.

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<sup>178</sup> Parliament Europejski, *Atypical work in the EU*, Working Paper, Social Affairs Series, SOCI 106, Luxembourg 2000.

<sup>179</sup> Eurofound, *Casual work: Characteristics and implications, New forms of employment series*, Publications Office of the European Union, Luxembourg 2019.

<sup>180</sup> Eurofound, *Self-employed person*, <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/self-employed-person>, [26.01.2021].

Interim management is a form of employing highly specialised experts to perform a specific task or solve a specific problem in a company. An important element here is the expert knowledge of the hired person, who through his or her experience helps when a problem arises in a specific narrow field or when managing a company in crisis. Interim management is useful not only for large companies, but also for small and medium-sized enterprises, especially in case of structural problems.<sup>181</sup>

Employee sharing is a form of employment in which a group of employers jointly employs workers and is jointly responsible for them. Working conditions are usually internally agreed within the group of employers.

There are two types of employee sharing:

- strategic: where a group of employers form a network in which they employ one or more workers to carry out an individual assignment for the companies in the employer network. This arrangement is similar to the activity of a temporary employment agency, except that the workers work within a well-defined group of employers and that the group does not aim to make a profit from redirecting the worker. The concept of strategic employee sharing arose out of economic and social necessity to create lasting relationships between companies and workers, even if a single employer is unable to provide sustainable work. Although the initial intention was to provide contractual security for mobile workers willing to work in this manner (such as seasonal workers), it has been recognised as a model that can offer voluntary, flexible work and also retain workers;
- ad hoc: the employer who temporarily cannot provide work for the employees sends them to work in another company. The employment contract between the original employer and the employee is maintained while the employee is integrated into the work organisation of the host employer. The sharing of ad hoc workers is primarily driven by the desire to maintain the employment relationship with the worker despite the temporary lack of tasks to be performed. With this solution, the employee is not deprived of his job.<sup>182</sup>

Job sharing refers to a situation where one employer employs two or more workers for one job. A total of employees perform full-time work. For an individual employee, this means working part-time.<sup>183</sup>

Job sharing provides workers with a high degree of flexibility, allowing them to work part-time and adapt work shifts to their needs. In terms of social protection, job-sharers are generally entitled to the same benefits as any part-time worker. On the other hand, job-sharing can result in more work than is contracted for, the need for overtime and work-related stress (caused, for example, by the mismatch of people sharing one job), and the dispersal of responsibility for tasks.

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<sup>181</sup> Eurofound, *Casual work:..., op. cit.*

<sup>182</sup> Eurofound, *Self-employed person..., op. cit.*, [26.01.2021].

<sup>183</sup> Eurofound, *Overview of new forms of employment – 2018 update*, Publications Office of the European Union, Luxembourg 2018.

ICT-mobile work means work carried out permanently or partly outside the employer's main office. The employee does not need to be physically present in the office, as the employee's duties are carried out through information and telecommunication technologies, such as networks, laptops, mobile phones and the Internet. Most often, in order to carry out his or her tasks, the employee connects online with the company's shared computer systems.<sup>184</sup>

This employment relationship is extremely flexible as it can take place anywhere and at any time, depending on the type of work, task, schedule and lifestyle of the employee. Workers are usually employed under a contract of employment or are self-employed.

Platform work (crowd employment) is a type of work where a worker performs a service for his or her employer's client using online platforms and mobile applications. Member States do not have a common position, nor vocabulary, for defining platform work. Consequently, a number of different terms are used to refer to the same concept. The term "platform work" is used interchangeably with terms: platform economy, gig economy, crowd employment, on-demand economy, collaborative economy, crowdsourcing, peer-to-peer economy, freelancing.<sup>185</sup>

The platform labour market matches suppliers with consumers via online platforms. Potential clients request ("on demand") services through an online technology platform or a smartphone app that allows them to search for providers who get paid for the task. In this model, workers (i.e. service providers) enter into formal contracts with an employer (company, organisation and institution) operating in the labour market to provide on-demand services to their clients. The providers (i.e. workers hired through platforms) engaged by the on-demand company deliver the required services and are paid for the performance of individual tasks.

Voucher-based work is an employment relationship in which the employee receives a voucher, rather than cash payment, as compensation for performed work. The employer purchases such a voucher from an authorised entity (usually public institutions and government agencies). The services provided by the worker are usually specific tasks to be performed within a certain period of time. Most often, the worker can exchange such a voucher for cash at the authorised unit from which the employer obtained it. An important element of the voucher is the fact that it provides social security, which is transferred to the insurance company to the employee's account when the voucher is redeemed.<sup>186</sup>

The sectors most frequently using this form are domestic services (including care work) and agriculture.

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<sup>184</sup> Eurofound, *Telework and ICT-based mobile work: Flexible working in the digital age, New forms of employment series*, Publications Office of the European Union, Luxembourg 2020.

<sup>185</sup> Eurofound, *Overview of new forms...*, *op. cit.*

<sup>186</sup> *Ibidem.*

Collaborative self-employment is a collaboration between self-employed people, sometimes also involving small and medium-sized entrepreneurs, which enables them to run a business together. Freelancers, the self-employed and/or micro-enterprises work together to overcome the constraints of their size and professional isolation.<sup>187</sup>

There are three forms of collaborative self-employment:

- umbrella organisations that support and protect freelancers and the self-employed. They provide the self-employed with support related to administrative duties (e.g. filling in tax forms and preparing invoices), but at the same time allow them to maintain the main characteristics of self-employment (independence, autonomy, but also job instability). In some cases, being a member of an umbrella organisation provides the self-employed or freelancers with better social protection than that offered by law;
- co-working is a shared workspace, understood as both a physical and virtual space. Self-employed people can exchange experience and knowledge useful for performing their job duties. Co-working is particularly relevant for non-traditional sectors, such as creative industries, but also for the consultancy sector. Co-working is seen as a beneficial solution for work-life balance, as it helps to separate the private and professional sphere, while making it easier to suit to the needs of all co-workers;
- co-operatives are shared and democratically controlled co-operative spaces that are not bound to a common physical space. In cooperatives, the self-employed and freelancers intensively exchange knowledge on production, marketing and strategic management. In some cases, cooperatives provide greater opportunity to access social protection for workers.<sup>188</sup>

Portfolio work applies when a freelancer, a self-employed or a micro-entrepreneur carries out small orders for a number of different clients.<sup>189</sup>

Portfolio work is characterised by a high degree of flexibility. On the one hand, it can have a positive impact on work-life balance and income levels. The employee has more autonomy, a sense of fulfilment and satisfaction, a range of choices for new challenges and opportunities to combine different skills. On the other hand, in such a form of employment working hours may exceed the norm and the employees lack benefits, e.g. difficult access to training courses. Additionally, the employee cannot predict the frequency and intensity of assignments. Portfolio work is considered as an increasingly common practice among creative workers (e.g. journalists, translators and media professionals) and researchers.

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<sup>187</sup> Eurofound, *New forms of employment*, Presentation to the European Parliament Committee on Employment and Social Affairs, Publications Office of the European Union, Luxembourg 2014.

<sup>188</sup> Eurofound, *New forms...*, *op. cit.*

<sup>189</sup> Eurofound, *Overview of new forms...*, *op. cit.*

Alternative forms of work can present both opportunities and risks for the labour market, employers and employees. Most of them contribute to labour market innovation and productivity and, in terms of economy as a whole, to lowering the unemployment rate. However, new approaches to the employment relationship, place, time and manner of work provision require redefining the existing relationship between the employer and the employee. The lack of well-defined social protection norms, rules and regulations that generally characterise alternative work can lead to precarity.<sup>190</sup>

## 2.3. Motivating employees

The etymology of the word *motivation* points to its roots in Latin. *Movere* means to move, to dislocate, but also to stimulate, to encourage someone to do something. Motivation is a psychological mechanism the essence of which is to set in motion, organise and direct human behaviour in a way that ensures achieving a set objective.<sup>191</sup>

J. Reykowski points out that motivation is the most dynamic mental structure. In his opinion, “motivation is a process of regulation, which performs the function of controlling activities so that they lead to the achievement of a specific goal”.<sup>192</sup> It is through motivation that people can have the willingness to take on daily challenges and efforts to satisfy their individual needs and desires. Motivation for work reflects reasons why people work more or less efficiently, take on their organisational responsibilities with more or less commitment, assume more or less responsibility, are or are not innovative.<sup>193</sup>

### **MOTIVATION = PERCEPTION OF POTENTIAL BENEFITS**

To motivate employees properly, one needs to get to know them, identify their needs and anticipate the behaviours they will show to meet their needs.<sup>194</sup> The following considerations should be taken into account in the motivation process:

- everyone’s needs are different and change over the course of a person’s life;
- human actions to achieve needs are varied, not always consistent, and are subject to change;

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<sup>190</sup> Parlament Europejski, *Precarious Employment in Europe: Patterns, Trends and Policy Strategies*, European Union, 2016.

<sup>191</sup> J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi a motywowanie pracowników*, Difin, Warszawa 2008, p. 91.

<sup>192</sup> J. Reykowski, *Teoria motywacji a zarządzanie*, PWE, Warszawa 1975, p. 35.

<sup>193</sup> J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi...*, *op. cit.*, p. 91.

<sup>194</sup> J. Sikora, *Motywowanie pracowników*, Oficyna Wydawnicza Ośrodka Postępu Organizacyjnego Sp. z o.o., Bydgoszcz 2000, pp. 22–23.



- people react in different ways when their needs are not met;
- for many managers, motivating employees to work with their needs in mind is a very difficult, tedious and discouraging process.<sup>195</sup>

J. Moczyłowska presents the basic variables influencing the level of employee motivation which enables the simultaneous realisation of his or her personal goals and those of the organisation. They are all closely interrelated and exert an influence on each other (figure 2.3). Motivating employees is a management function and a task of the organisation. Therefore, in the analysis of individual motivational variables, it is important to highlight the opportunities and responsibilities that lie with the company in terms of each of these variables. The below figure illustrates working environment factors, which should be understood as:

- adapting tasks assigned to staff to the technical and the available organisational possibilities;
- flexibly applying a (e.g. participative) management style appropriate to the existing needs;
- ensuring that workers have access to all information relevant to their work process.

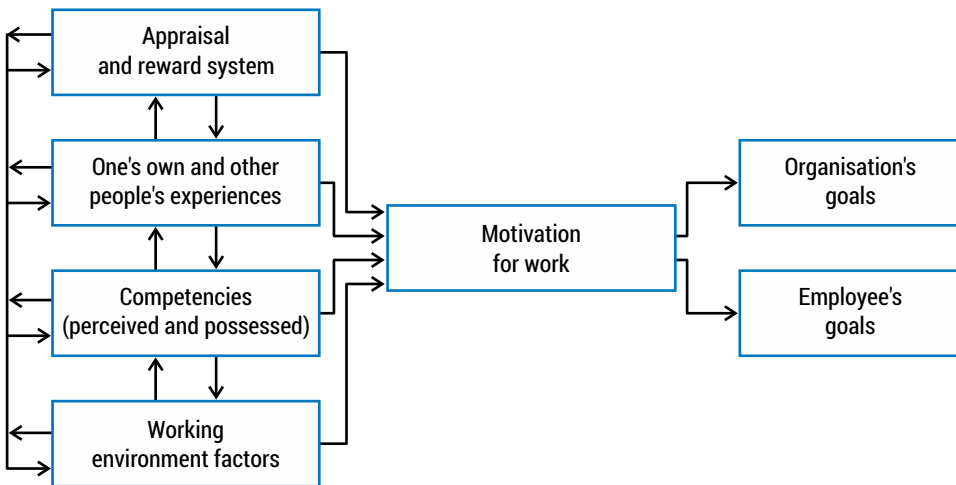


FIGURE 2.3. Integrated model of motivation

SOURCE: authors' elaboration based on: J. Moczyłowska, *Zarządzanie kompetencjami zawodowymi a motywowanie pracowników*, Difin, Warszawa 2008, p. 130.

Their shaping belongs to the basic competences of the organisation, but individual employees can also exert greater or smaller influence by passing on their comments, conclusions, ideas, proposals for innovative solutions to their superiors.

<sup>195</sup> J.A. Stoner, R.E. Freeman, D.R. Gilbert, *Kierowanie*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2001, pp. 363.

The competency factor should be understood both as competencies objectively possessed by the employee, as actually used by him or her in the work process, but also as subjectively assessed. Thus, motivation systems should:

- diagnose the objectively existing competencies of employees (both understood as capabilities, dispositions and those manifested in action);
- identify employees' subjective beliefs about their competences;
- conduct the processes of recruitment and selection of employees according to the criterion of necessary initial competencies for a given position and a given company;
- adapt tasks to the competencies possessed by the employee;
- carry out activities aimed at objective improvement of required competencies, acquisition of new ones, important for the given position and the whole organisation (objective increase of competencies to the optimal status);
- through a system of ongoing assessment and daily contacts, provide feedback to the employee, enabling him or her to raise self-esteem in the area of competency, increase the subjective sense of confidence in oneself and one's professional abilities.

Another element – one's own and other people's experiences – are factors exposed in J.S. Adams' theory of justice<sup>196</sup> and B.F. Skinner's reinforcement theory<sup>197</sup> as well as A. Bandura's social learning theory.<sup>198</sup> The employee analyses his or her work experiences from the near and distant past. He or she also observes and analyses the experiences of other people. He or she makes comparisons, evaluates and adapts other people's behaviour as his or her own. The continuity of workflow, its location on a specific time continuum makes it necessary to appreciate the importance of the employee's past and the conclusions he or she draws on the basis of the conducted analysis. In turn, the social context of professional activity indicates the necessity of treating very seriously the mechanisms of comparing one's own work to the work of others – both in terms of input, effectiveness and benefits.

An important factor influencing the level of employee commitment is the organisation's appraisal and reward system. The methods of analysing and measuring performance and the benefits that result from the appraisal should be perceived by the employee as objective, clear, understandable and fair. Rewards should enable individual needs to be met and individual goals to be achieved. Hence, the perception of being able to realise one's own goals in the course of and as a result of work activity is so important. In appraisal and reward systems, there are processes in which the organisation has a decisive influence by establishing formal procedures, rules and regulations. There are also processes on which (according to the theory of justice)

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<sup>196</sup> J.S. Adams, *Toward an understanding of inequity*, "Journal of Abnormal and Social Psychology" 1963, 67, pp. 422–436.

<sup>197</sup> P.G. Zimbardo, R.L. Johnson, V. McCann, *Psychologia. Kluczowe koncepcje. T. 2: Motywacja i uczenie się*, Wydawnictwo Naukowe PWN, Warszawa 2010, pp. 136–138.

<sup>198</sup> A. Bandura, *Teoria społecznego uczenia się*, Wydawnictwo Naukowe PWN, Warszawa 2007.

the organisation has limited influence, because it is difficult for it to impose from above the points of reference that guide the employee by means of comparison-based evaluation of fairness in the *outlay* → *benefit* relationship.

Summarising the integrated model of motivation, two main conclusions should be highlighted:

- The effectiveness of the motivation process is determined by the characteristics of the employee and the characteristics of the organisation, and the two interact closely.
- The quality of the motivation system can be measured by the ability to meet the changing organisation's goals and the individual, changing employee's goals.<sup>199</sup>

Motivation is usually thought of in terms of impact on employees being already in employment relationship. However, it seems necessary to adopt a different perspective. An aspiring employee often forms his or her opinion of an organisation on the basis of the first impression. It is therefore worth realising that the professional conduct of the recruitment and selection process is an important organisational competence. Recruitment "best practices include:

- confidentiality of the process;
- openness of the recruitment methodology;
- personal conduct of the members of the recruitment committee;
- impartiality and fairness towards candidates;
- high professional competence of the recruitment committee;
- uniform questions and tasks for all candidates for a given position;
- adherence to the plan and schedule of the recruitment process;
- contact with candidates before and after the selection process.<sup>200</sup>

Another important aspect is a reliable employee appraisal, which can be a source of motivation (as feedback on the positives and negatives of task performance). It also makes it possible to plan the training and development of the employee. Moreover, the criteria used in the evaluation and the use of the appraisal system are a very strong factor influencing the company's organisational culture, the norms and principles operating within the organisation.<sup>201</sup>

From the employee's perspective, performance appraisal provides an opportunity to determine his or her own effectiveness, training and development needs, the conditions he or she must meet in order to obtain the rewards provided for by the incentive system, including the remuneration system. Finally, it can be a point of reference in plans for promotion or transfer to another position. It is a very important

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<sup>199</sup> J. Moczyłowska, *Zarządzanie kompetencjami zawodowymi...*, *op. cit.*, pp. 131–132.

<sup>200</sup> A. Walicki, *Dobre praktyki procesu rekrutacyjnego*, [in:] *Profesjonalizm usług urzędu pracy. Materiały konferencyjne*, Wojewódzki Urząd Pracy w Białymstoku, Białystok 2006, pp. 21–28.

<sup>201</sup> A. Sajkiewicz, *Metody doskonalenia jakości personelu*, [in:] A. Sajkiewicz (ed.), *Jakość zasobów pracy. Kultura, kompetencje, konkurencyjność*, Wydawnictwo Poltext, Warszawa 2002, pp. 43–44.

component of self-awareness, i.e. the process of processing information about oneself and one's relations with the environment, which helps to regulate and control experiences and behaviour. Appraisal influences both internal self-consciousness, which concerns one's own desires and judgements, and external self-consciousness relating to behaviour, social roles and interpersonal contacts.<sup>202</sup>

Both praise and admonishment or reprimands are a type of feedback – the basic factor of effective motivation. For feedback to have a positive effect, certain specific rules must be followed:

- information should only concern the behaviour, actions and work of individuals or task force teams and should not include judgements of the individuals and groups only;
- feedback is a form of expressing one's own opinion, not a final judgement. Therefore, it is useful to use phrases such as "In my opinion...", "I think...", "I would like to say that..." etc. One should also be aware that others may have different opinions;
- the more the superior is specific, the easier it is for him or her and his or her interlocutors to use feedback to improve activities in a given area;
- it is always necessary to obtain confirmation that the message we have given has been understood by the recipient. A simple "yes, I understand" is not enough. We should encourage the person (or group) to summarise (paraphrase) what we have said.

The use of feedback offers, on the one hand, the possibility to involve others in the process of increasing the effectiveness of the whole team, but on the other hand, it turns out to be something extremely difficult. It is connected with the ability to accept criticism and readiness to modify one's plans under the influence of other people's opinions. Feedback is also an exceptionally safe and effective way of indicating to what extent the set goals have been met, which criteria have been achieved, and where work should be improved. For the employee, but also for his or her superior, it can be an opportunity to reflect on his or her own work.

Another important issue related to employee motivation is development planning, which aims to combine the individual plans of all employees with those of the organisation. Career planning binds employees to the organisation, reduces the costs of turnover, recruitment and selection, facilitates individual professional and personal development, strengthens the culture of the organisation, reduces conflicts in the organisation, increases employee motivation. The process of career planning begins at the moment of hiring an employee, where the first presentation of the employee's professional goals and the presentation of the possibility of their implementation in the organisation takes place. Then, the company should develop a whole system of employee development activities, forms of further education

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<sup>202</sup>J. Moczydłowska, *Ocenianie rozwojowe pracowników administracji samorządowej*, "Zarządzanie Zasobami Ludzkimi" 2011, 3–4, pp.148–159.

and training, the appraisal system and promotion procedures in order to prepare employees to move up the career ladder. Every company needs such a system if it wants to make a good use of the potential inherent to each person and to accelerate the learning process, which constantly expands the possibilities for creating the organisation's future.<sup>203</sup> The career plan is usually prepared for a period of several years (three to five years) and includes a set of potential jobs that the employee could take up, together with the conditions to be met. On the employee's part, the conditions usually point to the attainment of certain competencies, including qualifications, confirmed by completed courses, apprenticeships or professional achievements; on the company's part, the creation or removal of a position. A typical career planning process consists of the following stages:

- preparing a description of the current organisational structure, identifying the typical length of time an employee occupies a job or job category and the typical career paths and promotion opportunities;
- creating a policy which ensures that employees included in the programme have access to appropriate training, the opportunity to acquire practical experience of working on projects or in different positions;
- selecting staff to be included in the programme on the basis of established criteria;
- assigning an advisor/mentor to each participant in the programme;
- analysing with workers the results of aptitude tests, personality tests, etc;
- the participant's discussing his or her views on his or her own career with the counsellor;
- involving managers in a discussion about possible future career opportunities for employees;
- agreeing with each participant on the general direction of their career and what kind of support he or she would like;
- implementing agreed action plans – job rotations, posted work abroad or full time training programmes;
- checking regularly on the progress and seeking feedback on each participant.<sup>204</sup>

Positive attitudes towards the organisation are shown by those employees who have the opportunity to execute their career plans. Taking into account the motivational dimension of all HR processes in organisations in fact means abandoning the approach in which there is a subject of action (the organisation that motivates) and an object of action (the employee who is motivated). By depersonalising a human being in the work process, the "human resource" is deprived of his or her sense of agency. He or she ceases to be the subject of his or her action and becomes only

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<sup>203</sup> J. Penc, *Menedżer w działaniu – sekrety prowadzenia biznesu*, t. I., Wydawnictwo C.H. Beck, Warszawa 2003, p. 157.

<sup>204</sup> A. Gick, M. Tarczyńska, *Motywowanie pracowników*, PWE, Warszawa 1999, p. 127.

a tool. This is both unethical and inefficient. A human being as a person cannot be a tool in the hands of another person or institution in any context. It is therefore important that the employee has a sense of empowerment and responsibility.<sup>205</sup>

Material motivation is important from the point of view of the employee and the employer. It includes everything that is related to direct and indirect remuneration; the totality of pecuniary as well as non-pecuniary (in-kind) income that is achieved from work. It rarely exists as a single component. It usually covers many of them, including components guaranteed by the Labour Code. Remuneration is one of the strongest determinants of employee attitudes, motivation and behaviour. There is strong evidence that appropriate pay, allowances and profit-sharing contribute to better performance at work.<sup>206</sup> Expectations associated with remuneration increase with growing competency, self-esteem and standard of living. That is why material motivation plays such a significant role in every motivation system. Recognising the nature of the contemporary environment of enterprises, it can be concluded that the task of the remuneration system is to stimulate the growth of competencies, professionalism, creativity, entrepreneurship, but also the effects of work. At the same time, it is worth stressing the considerable scale of difficulties in implementing the motivational function of remuneration. It is one of the most sensitive and conflictive areas of enterprises. Employers are interested in reducing the costs of their activities, also in terms of wages. Employees are interested in the highest possible salaries, because these have a decisive impact on their standard of living. Hence, there arises the need to constantly seek compromise solutions that are acceptable to both parties.

The motivational function of remuneration is expressed in the conviction that it should induce people to undertake and effectively perform work, trigger the will to improve professional competencies, make it possible to undertake and complete difficult organisational roles and tasks. The motivational potential of wages is related to the role played by money in the modern economy and in the lives of individuals.

According to M.W. Kopertyńska, for remuneration to fulfil its social function properly, it must be explicit. Only then will the employee know his or her position among others; this is also of fundamental importance for his or her motivation.<sup>207</sup> Remuneration received for work should reflect the prestige of the profession. Difficult and responsible work, which requires high qualifications, dedication and often even devotion, must be properly paid. Otherwise, the rank of many professions loses its importance. All professions can be ordered in terms of their social importance. The social position of a profession does not always correspond to the complexity

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<sup>205</sup> J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi...*, op. cit., p. 167.

<sup>206</sup> D.G. Gardner, L. Van Dyne, J.L. Pierce, *The Effects of Pay Level on Organization-based Self-esteem and Performance: a Field Study*, "Journal of Occupational and Organizational Psychology" 2004, 77, pp. 307–320.

<sup>207</sup> M.W. Kopertyńska, *System płac przedsiębiorstwa*, Wydawnictwo Akademii Ekonomicznej im. Oskara Langego we Wrocławiu, Wrocław 2000.

and difficulty of the performed work. A higher social position of a profession, other than that resulting from the difficulty of work, creates a wage gap. On the other hand, a worker performing a profession paid inadequately to its social rank will feel socially degraded.

The most common criterion used in practice to determine basic pay is the type of performed work, which consists of: complexity of performed work, responsibility, arduousness of the work and the conditions under which the work is performed. The basic salary plays a key role in an employee's interest in working with an organisation. This is due to its significant share in the total remuneration package and its relative stability.

Research on job evaluation and its market valuation shows that the decisive role in developing the wage structure is most often played by:

- job classification;
- competencies required for it, including experience;
- market data on salary levels.<sup>208</sup>

From the point of view of human resource management in a specific organisation, a different classification of remuneration is adopted. Its functions include:

- creating the image of an attractive employer and attracting the most valuable employees;
- retaining employees in the organisation (reduction of costs connected with staff fluctuation, especially those resulting from the outflow of competencies and costs of re-employment and professional development of the newly employed);
- stimulating employees to achieve expected work results;
- stimulating staff to continuously learn and improve their competencies.<sup>209</sup>

J. Moczydłowska claims that a newly hired employee is rewarded almost exclusively for his or her competencies.<sup>210</sup> Initially, there are no tangible results of his or her work for the organisation that employs him or her. At this stage it is necessary to accurately diagnose the competency potential of the newly employed and to treat competencies as a prognosis of future work results. Salary constitutes remuneration for the capabilities which the employee brings to the enterprise, and at the same time it is supposed to be a motivation stimulus to reveal competencies in action, i.e. to use them in the work process. Only after some time from the moment of employment, when it is possible to assess the work, can the organisation reward the employee not only for exhibited competencies, but also the measurable results of his or her work (figure 2.4).

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<sup>208</sup>S. Whiddett, S. Hollyforde, *Modele kompetencyjne w zarządzaniu zasobami ludzkimi*, Oficyna Ekonomiczna, Kraków 2003.

<sup>209</sup>J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi...*, op. cit., p. 179.

<sup>210</sup>*Ibidem*, s. 205.

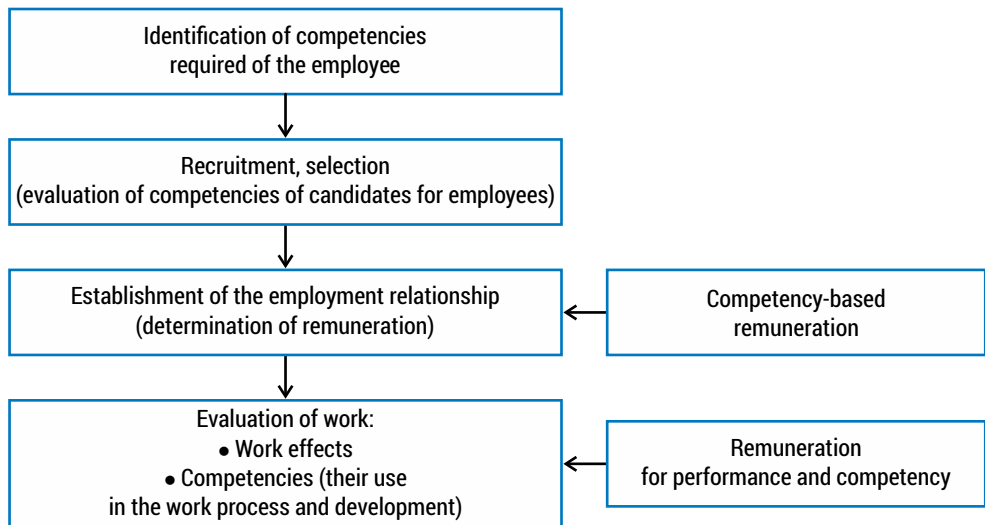


FIGURE 2.4. Employee remuneration

SOURCE: authors' elaboration based on: J. Moczyłowska, *Zarządzanie kompetencjami zawodowymi...*, *op. cit.*, p. 203.

The organisation applies the competency-based remuneration system if it determines the amount of remuneration of a newly-hired employee primarily on the basis of an assessment of his or her competences, treated as a source of the employee's professional capabilities and a predictor of his or her future performance. At the same time, it makes the maintenance of the current level of remuneration or its modification dependent on periodic assessment of competences, but also on the assessment of the employee's work performance. Evaluation entails the development of competencies, their use in the course of work and work results. This means that an employee is initially paid mainly for competences, while continuing to work for the organisation, he or she is paid for competencies and work results.

Organisations need to create objective evaluation criteria that show who contributes most to the growth of the organisation. Once they have learned to identify the most important people and the most important competencies, they can develop an appropriate reward strategy. A good summary of the discussion on the role of remuneration in motivation may be A. Kohn's statement:<sup>211</sup> "I recommend that employers pay workers well and fairly and then do everything possible to help them forget about money."

The result of involvement is the achievement of good work results as well as reducing absenteeism and subsequent increasing employment stability. Motivation tools fulfil their role when they are included in regulations in the form of rules and procedures.

<sup>211</sup> A. Kohn, *Punished by Rewards*, Houghton Mifflin Harcourt, San Diego 2018.



This results in equal treatment of all subordinates.<sup>212, 213</sup> Choosing the right motivation method contributes to the proper use of human resources so that employees feel inspired to do their work and initiate a process of innovative thinking.<sup>214, 215</sup> The process of motivation engages several motivation factors. They can be divided according to different criteria. Table 2.7 shows a breakdown of the motivational factors.

TABLE 2.7. Criteria for the allocation of motivational factors

<b>Scope of impact</b>	Internal	Recognition, prestige, independence, development
	External	Salary, promotion, sense of security
<b>Form</b>	Wage-based	Salary, awards, bonuses
	Extra-wage	Oral praise, good working conditions, training, team building trips
<b>Direction of impact</b>	Positive	Rewards to reinforce desired behaviour
	Negative	Punishments to motivate avoidance of behaviour considered undesirable
<b>Manner of impact</b>	Individual	
	Group	
<b>Satisfaction of needs</b>	Factors satisfying basic stimuli	Vital needs of the human being
	Factors satisfying higher-order stimuli	Social, aesthetic and moral needs

SOURCE: M. Sępek, *System motywowania pracowników*, "Przedsiębiorczość i Zarządzanie" 2010, 11 (11), pp. 103–104.

It is important to understand that each process involved in human capital management has a motivational (or, in the case of mismanagement, demotivational) dimension. The process of which the employee is the subject – from recruitment, through appraisal, remuneration, to professional development and the realisation of a career path – has a motivating function, because it has a great influence on attitudes towards work.

A motivational system is a set of purposefully selected and logically interrelated motivators, forming a coherent whole, which serves the achievement of the mission, vision, strategy and objectives of a given organisation and takes into account

<sup>212</sup> M. Juchnowicz, *Zarządzanie kapitałem ludzkim. Procesy – narzędzia – aplikacje*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2014, p. 389.

<sup>213</sup> J. Sadłowska-Wrzesińska, Ż. Nejman, I. Gabryelewicz, *Kultura bezpieczeństwa pracy w roli czynnika motywacyjnego – analiza różnic płciowych*, "Przedsiębiorczość i Zarządzanie" 2017, 18 (6/2), pp. 195–197.

<sup>214</sup> J. Schermerhorn, *Zarządzanie, kluczowe koncepcje*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2008, p. 259–260.

<sup>215</sup> J. Sadłowska-Wrzesińska, Ż. Nejman, *Organizacja bezpiecznej pracy jako zapłacowany czynnik motywacji*, "Przedsiębiorczość i Zarządzanie" 2016, 17 (6/2), p. 399.

the purposeful and feasible needs and expectations of managers and employees.<sup>216</sup> An effective incentive system should be: comprehensive, effective, logical, accepted, known and understood, as flexible as possible, in line with current legislation and as easy to use as possible. It should take into account all remuneration-related functions: incentive, income, cost and social.<sup>217</sup> The most important functions performed by the incentive system are shown in table 2.8.

TABLE 2.8. Functions of the incentive system according to different authors

Author	Functions
J. Walas	<ul style="list-style-type: none"> <li>• selecting employees and suitable jobs that suit them,</li> <li>• knowing their needs and how important these are to them,</li> <li>• selecting motivational tools in order to make the right choice as to their use,</li> <li>• delegating tasks, exerting influence through skilful arguments,</li> <li>• assessing the level of task performance and its compatibility with applied incentives (salary, extra-salary) by managers</li> </ul>
E. Masłyk-Musiał	<ul style="list-style-type: none"> <li>• ensuring the possibility of a link between the employee's own contribution and the achieved result (through the possibility of obtaining benefits, rewards or matching the individual degrees of achievement of an adequate value),</li> <li>• defining favourable results through the existence of relations between the quality of produced goods and the amount of determined remuneration,,</li> <li>• ensuring the sense of fairness of paid remuneration (adequate to the amount of work)</li> </ul>
M. Armstrong	<p>Key functions of the incentive system:</p> <ul style="list-style-type: none"> <li>• creating an appropriate working environment,</li> <li>• the nature of policies and practices that encourage employee performance,</li> </ul> <p>Detailed functions of the incentive system:</p> <ul style="list-style-type: none"> <li>• measuring motivation (to improve ineffective areas),</li> <li>• valuing employees (trusting them),</li> <li>• creating a climate where high performance is valued or appropriate reward management is in place</li> </ul>
Ż. Nejman, A. Kawecka-Endler	<ul style="list-style-type: none"> <li>• enabling the optimal use of the potential of the employed staff,</li> <li>• fostering their identification with the objectives and actions undertaken by the company,</li> <li>• increasing both group and individual employee motivation</li> </ul>

SOURCE: M. Pęcek, J. Walas-Trębacz, *Ocena skuteczności systemów motywacyjnych stosowanych w organizacjach*, "Journal of Modern Management Process" 2018, 3 (1), p. 17; J. Walas, *Funkcja motywacji w procesie zarządzania*, "Zeszyty Naukowe Akademii Ekonomicznej w Krakowie" 1994, 430, pp. 73–89; E. Masłyk-Musiał, *Organizacje w ruchu*, Oficyna Ekonomiczna, Kraków 2003; M. Armstrong, *Zarządzanie zasobami ludzkimi*, Wolters Kluwer, Kraków 2000; Ż. Nejman, A. Kawecka-Endler, *Motywowanie w firmie rodzinnej – studium przypadku*, "Przedsiębiorczość i Zarządzanie" 2015, 16 (7/3), pp. 325–337.

<sup>216</sup> T. Oleksyn, *Zarządzanie zasobami ludzkimi w organizacji*, Oficyna Wolters Kluwer Business, Warszawa 2014.

<sup>217</sup> T. Oleksyn, *Sztuka kierowania*, Wyższa Szkoła Zarządzania i Przedsiębiorczości im. Bogdana Jańskiego, Warszawa 2001.

A. Kobyłka expands the functions of the motivation system with retaining employees who constitute a value for the company, and creating an image which would encourage them to work.<sup>218</sup>

The incentive system is perceived in a broad sense: as a set of various motivators (salary, material extra-wage and non-material) which should lead to a synergic effect, i.e. the effectiveness of the whole system should be greater than the sum of the effectiveness of its individual components (figure 2.5).

Motivation entails the use of material and non-material incentives, making it possible to satisfy the individual needs of employees as well as to achieve their personal goals. With a properly designed and professionally implemented competency management system, the employee can satisfy all groups of needs in all HR processes (recruitment, appraisal, development, career planning, as well as remuneration). In a special way it concerns the need for security, belonging, recognition, development, participation, self-realisation based on the sense of one's self-esteem as a human being and an employee.

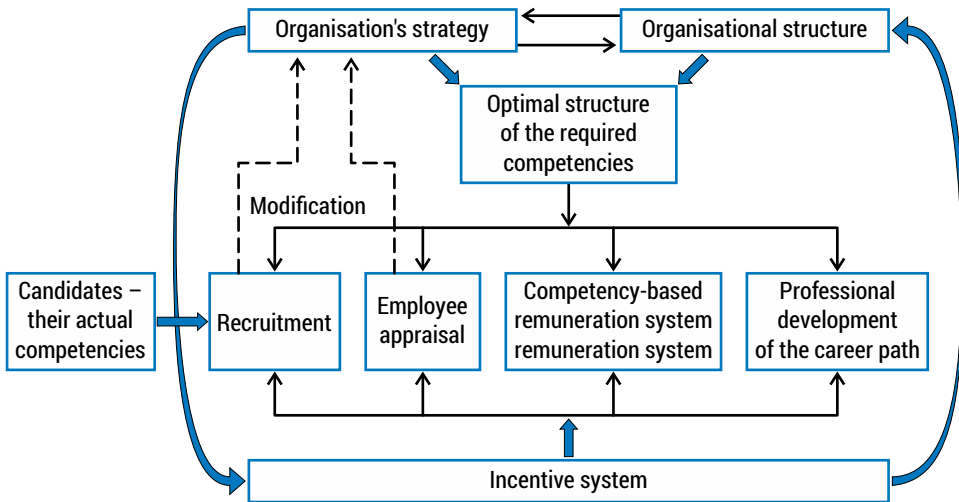


FIGURE 2.5. Incentive management system model

SOURCE: authors' elaboration based on: J. Moczydłowska, *Zarządzanie kompetencjami zawodowymi...*, op. cit., p. 240.

In developing incentive systems of modern enterprises, it is necessary to observe two principles: individualisation and comprehensiveness of the motivation process. Individualisation is perceived through getting to know the needs and expectations of individual employees, which allows the manager to obtain information on the personal characteristics of employees. Complexity is connected with the systemic approach

<sup>218</sup> A. Kobyłka, *Źródła motywacji pokolenia Y w pracy zawodowej*, "Studia Oeconomica Posnaniensia" 2016, 4(6), pp. 40–56.

to motivation and consists in creating logically coherent and mutually supporting motivation measures in the organisation (as well as their teams acting on the principle of reinforcement). It gives an opportunity to influence each employee simultaneously through several motivation factors, which are adapted to his or her individual needs and goals.

## 3. Marketing aspects of the business activity

### 3.1. Evolution and specificity of marketing

The concept of marketing has evolved over the years, experiencing various transformations and ongoing refinements. However, regardless of how the concept is defined, it is widely accepted that marketing places the consumer at the very centre of economic activity.<sup>219</sup>

The word *marketing* is derived from the English word *market*. The ending “-ing” indicates activities of a business that take place in a constantly changing market. To understand advanced marketing, one must first understand how the market has changed in recent years.<sup>220</sup>

The 1985 definition of marketing by the American Marketing Association reads as follows: “the process of planning and executing the concept, pricing, promotion and distribution of goods, services and ideas in order to bring about an exchange that satisfies the individual and achieves the objectives of the organization.”<sup>221</sup> In 2007, the American Marketing Association modified the definition of the term, significantly deepening and broadening it. The current version is as follows: marketing is an activity, a set of institutions and processes aimed at creating, communicating, delivering and exchanging offers perceived as valuable by buyers, customers, partners and society as a whole.

Marketing is the social and managerial process by which individuals and groups get what they need and want through the creation and mutual exchange of value-added products.<sup>222</sup> In a broader sense, marketing should be seen as the science and art of researching, creating and profitably offering products of value to customers in order to satisfy the needs of the target market.<sup>223</sup>

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<sup>219</sup> A. Krukowska-Miler, *Marketing wartości jako przejaw marketingu 3.0*, “Zeszyty Naukowe Uniwersytetu Szczecińskiego. Ekonomiczne Problemy Usług”, no. 74, 2011, 662, p. 359.

<sup>220</sup> Ph. Kotler, H. Kartajaya, I. Setiawan, *Marketing 4.0: era cyfrowa*, MT Biznes, Warszawa, 2017.

<sup>221</sup> K. Przybyłowski, S. Hartley, R. Kerin, W. Rudelius, *Marketing*, Dom Wydawniczy ABC, 1998, p. 8.

<sup>222</sup> P. Kotler, *Marketing. Analiza, planowanie, wdrażanie i kontrola*, Gebethner & Ska, Warszawa 1994, p. 6.

<sup>223</sup> P. Kotler, *Philip Kotler odpowiada na pytania na temat marketingu*, Rebis, Poznań 2004, p. 14.

Over the last few decades, marketing has evolved from a product-centric phase (Marketing 1.0) to a consumer-centric phase (Marketing 2.0). Since the beginning of the last decade, we have seen another transformation in response to the new dynamics of the environment. Companies are widening their field of activity and focusing not only on products and consumers, but also on social issues. Marketing 3.0 is a stage where companies no longer put the consumer at the centre, but the human being, and the profitability of the company is balanced by corporate responsibility.<sup>224</sup> Since the last mid-decade, we have been dealing with the development of Marketing 4.0. The essence of Marketing 4.0 is the recognition of the complementary roles of both traditional and digital marketing in building consumer engagement and recommendation. Marketing 4.0 focuses on the assumptions of “humanoid” marketing, using methods of artificial intelligence.<sup>225</sup> Table 3.1 presents a comparative analysis between the concepts of Marketing 1.0, 2.0, 3.0 and 4.0.

Marketing is a modern form of business management, which involves adapting its activities to the needs of the market and the consumer, including the manufacturing of products in accordance with the needs of buyers, delivering them to the market in the right form, place and time, at the right price and skilful promotion.<sup>226</sup>

TABLE 3.1. Comparison of Marketing 1.0, 2.0, 3.0 and 4.0

	<b>Marketing 1.0 Product-centric marketing</b>	<b>Marketing 2.0 Customer-centric marketing</b>	<b>Marketing 3.0 Value-centric marketing</b>	<b>Marketing 4.0 Virtual marketing</b>
Objective	Sell products	Meet consumer expectations and retain the client	Make the world a better place	Create tomorrow already today
Favourable trends	Industrial revolution	Information technology	New wave technology	Digitalisation of marketing
Companies' perception of the market	Mass customers with needs regarding the physical nature of the product	Intelligent consumers driven by reason and heart	A human being in the full sense, having mind, heart and spirit	Informed consumer co-creating products
Key marketing concept	Product development	Standing out on the market	Values	Mass customisation
Marketing guidelines	Product specification	Product and company positioning	Mission, vision and corporate values	Interactive marketing

<sup>224</sup> Ph. Kotler, H. Kartajaya, I. Setiawan, *Marketing 3.0. Dobry produkt? Zadowolony klient? Spełniony człowiek!*, Wyd.MT Biznes Sp. z o.o., Warszawa 2010, p. 12.

<sup>225</sup> Ph. Kotler, H. Kartajaya, I. Setiawan, *4.0: era cyfrowa*, MT Biznes, Warszawa, 2017.

<sup>226</sup> G. Sobczyk, A. Celoch, *Marketing współczesnej organizacji*, w: Współczesny marketing. Skuteczna komunikacja i promocja, red. D. Filar, Wyd. UMCS, Lublin, 2013, p. 20.

	<b>Marketing 1.0 Product-centric marketing</b>	<b>Marketing 2.0 Customer-centric marketing</b>	<b>Marketing 3.0 Value-centric marketing</b>	<b>Marketing 4.0 Virtual marketing</b>
Value proposition	Functional	Functional and emotional	Functional, emotional and spiritual	Functional, emotional, spiritual and self-creative
Interaction with the consumer	One-to-many transaction	One-to-one relationship	Many-with-many cooperation	Power in the hands of networked customers

SOURCE: Ph. Kotler, H. Kartajaya, I. Setiawan, *Marketing 3.0. Dobry produkt? Zadowolony klient? Spełniony człowiek!*, Wyd.MT Biznes Sp. z o.o., Warszawa 2010, p. 21; Ph. Kotler, H. Kartajaya, I. Setiawan. *Marketing 4.0: era cyfrowa*, MT Biznes, Warszawa, 2017.

The most important considerations for doing business according to a marketing orientation include the following:<sup>227</sup>

- the main focus of the company is the consumer and his or her needs;
- the company achieves good economic results by identifying its success with customer benefits and satisfaction;
- market potential, not production capacity, becomes the company's main field of observation;
- systematic marketing research becomes the basis for decision-making;
- an important role is played by planning and applying an integrated system of marketing activities, which includes the so-called marketing-mix (product, price, promotion, distribution and personnel).

Marketing plays two fundamental roles in a company – it is both a function and a mindset. When it comes to the first role of marketing, there is a need to establish who is responsible for the following aspects:<sup>228</sup>

- establishing the set of products that the company offers in specific markets;
- establishing the desired customer profile;
- defining the manner of quality perception;
- planning new products;
- defining the brand strategy;
- defining ways of promotion;
- selecting distribution channels;
- setting price levels.

<sup>227</sup> G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., p. 20.

<sup>228</sup> M. Dusel, *Marketing w praktyce*, BC.edu, Warszawa 2009, p. 12.

Considering marketing as a function in an enterprise, it is also necessary to establish and define such aspects of business implementation as marketing research, strategic marketing, product policy, pricing policy, distribution policy, and promotional policy.

Marketing in a company is also a mindset that concerns everyone – both managers and subordinates. It does not suffice to entrust marketing activities to specific people in the company. It is important to involve all employees of the enterprise in the implementation of the marketing strategy. In analysing marketing as a way of thinking, its manifestations in an enterprise can be found in: vision, mission, values, ethics, as well as in the ways of thinking and acting of managers and employees.<sup>229</sup>

In terms of the place of marketing in the organisation's strategy, strategic and operational marketing can be distinguished. Strategic marketing is characterised by general, long-term action, e.g. selecting the target market, defining the company's mission, philosophy of action, higher objectives. Operational marketing is characterised by detailed, short-term planning, including the definition of subordinate objectives, as well as the definition of marketing mix elements.<sup>230</sup>

One of the fundamental aspects of the marketing concept is the targeting of the business to a specific group(s) of customers. The enterprise must therefore identify the market segments that it will be able to serve effectively. The process for carrying out this activity is market segmentation, which involves dividing the market according to specific criteria into fairly homogeneous groups of consumers.<sup>231</sup> The identified groups, the so-called market segments, determine the area of activity for the company and are the starting point for the formulated action scheme.<sup>232</sup>

Segmentation is used in the consumer goods, supply and investment, and services market. It enables the application of a target (segmentation-oriented) marketing strategy, consisting of the identification of market segments and the selection of one or more of them in order to handle them in the most optimal manner.<sup>233</sup> The process of target market selection consists of three phases (figure 3.1).

The target market for the planned project comprises a set of entities – individuals, households, companies or institutions – that are potential buyers of the company's products. Estimating the number of potential customers is not a simple matter. Let us take an example related to estimating the number of customers who will be interested in buying shoes. To begin with, one can usually assume the total number of inhabitants of a given locality in which a particular business activity will be carried out. The next step is to discard those groups that will certainly not buy shoes – e.g. infants (you need to check what percentage of the population they represent). However, a significant part of this potential market usually also has to be rejected, because observations

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<sup>229</sup> M. Dusel, *Marketing ...*, op. cit., p. 13.

<sup>230</sup> *Marketing usług logistycznych*, ed. G. Rosa, M. Jedliński, U. Chraćol-Barczyk, Wydawnictwo CH Beck, Warszawa 2017, p. 33.

<sup>231</sup> L. Garbarski, *Zrozumieć nabywcę*, PWE, Warszawa 1994, pp. 127–139.

<sup>232</sup> A. Krukowska-Miler, *Marketing wartości...*, op. cit., pp. 359–372.

<sup>233</sup> G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., p. 27.



and conversations with people will show that, for example, people on low income wear the same shoes for several seasons, or that in families with many children, shoes are usually bought only for the oldest children, and younger ones wear the shoes which the older siblings have grown out of. If we deduct all these groups, we will estimate the so-called likely market. And it is this number that should be treated as the number of buyers when estimating market potential.

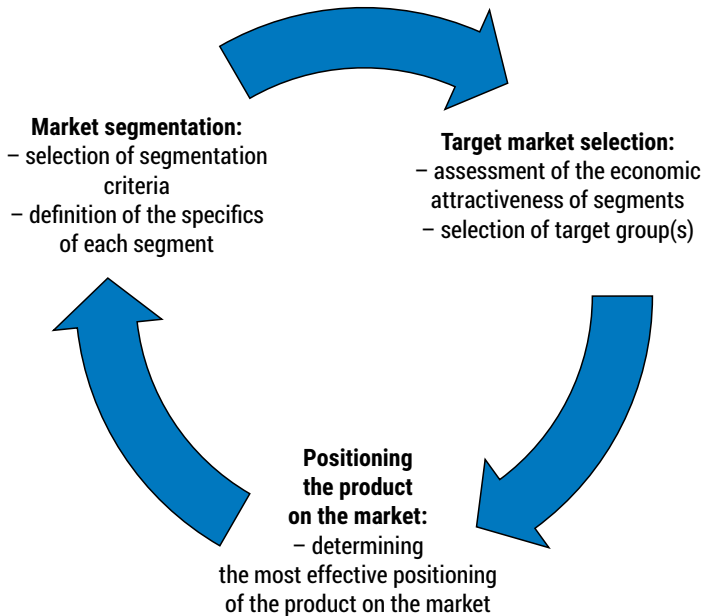


FIGURE 3.1. Steps in selecting the target market

SOURCE: G. Sobczyk, A. Celoch, *Marketing współczesnej organizacji*, [in:] "Współczesny marketing. Skuteczna komunikacja i promocja," ed. D. Filar, Wyd. UMCS, Lublin, 2013, p. 29.

To calculate the demand for a given product, the so-called indicator chain approach can be used:

$$\text{demand for the product} = \text{population of the locality} \times \text{average income} \times \text{average share of expenditure on footwear.}$$

An estimate of the number of customers should be based primarily on statistical data, as well as on own observations and conversations with people.

## 3.2. Marketing mix instruments

The marketing mix is a set of marketing tools a company uses to achieve its marketing objectives within its target market. It encompasses a combination of four variables, which are controlled by the company in an effort to achieve selected strategic objectives. The basic version of the marketing mix includes the so-called 4Ps, i.e. product, price, place and promotion.<sup>234</sup>

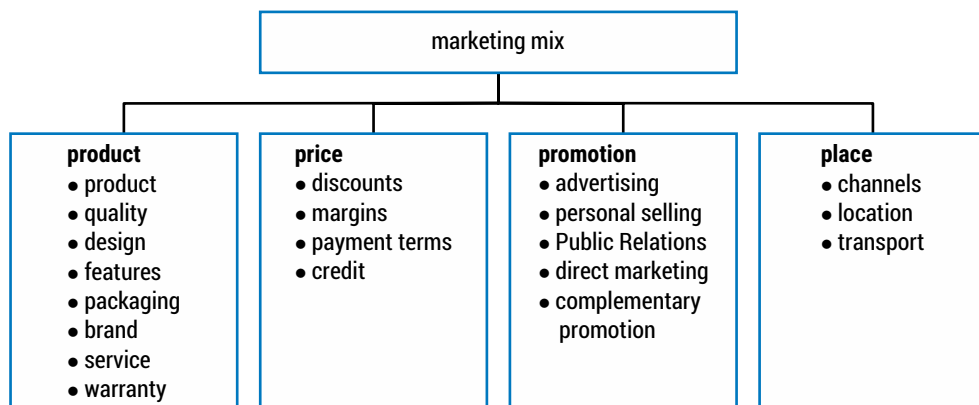


FIGURE 3.2. Classical marketing mix instruments – 4Ps

SOURCE: Cf. Ph. Kotler, G. Armstrong, J. Saunders, V. Wong, *Marketing, Podręcznik Europejski*, PWE, Warszawa 2002, p. 142.

From the point of view of marketing orientation, the product should be viewed as a specific combination of tangible and intangible features, creating a use value for the buyer. It can be concluded that the customer buys specific benefits, satisfaction and contentment which he or she gains thanks to a given product. In marketing theory, it is emphasised that the benefits provided by a product can be located at the following four levels: core product (benefit), actual product, augmented product, and potential product.<sup>235</sup> The core product is the basic benefit that a product or service provides (e.g. a car provides mobility, insurance protects against risk). At this level of benefit, individual products within a category satisfy the same need for a given group of customers and in principle they do not differ from each other. The actual product covers a spectrum of features that form a chain of benefits that are offered to the customer. These include such aspects as price, brand, model, retailer behaviour. These elements determine the customer's perception of the product. They are also the basis for differentiating promotional activities for a given product. The augmented product includes additional properties, services which increase the usefulness of the product, such as warranty, installation, service, etc. The last level of benefits

<sup>234</sup>Ph. Kotler P., *Marketing. Analiza...*, op. cit., p. 91.

<sup>235</sup>G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., p. 49.

offered to the customer is the so-called potential product. It covers the future potential use of the product. Looking at a product through the prism of the indicated levels of benefits allows to identify the elements that distinguish a given offer from competing products, and then base the brand communication strategy on them.

Among the sources of potential benefits for buyers of the product (which may become the basis for its distinction), the following are identified:<sup>236</sup>

- benefits from the characteristics and physical properties of the product;
- benefits from the quality of the product's workmanship;
- benefits from the style, design and aesthetics of the product;
- benefits from the packaging;
- benefits from product-related legal solutions (safety, warranty, etc.);
- benefits from services that enhance the product.

The planned product/service may be similar to those already offered on the market. However, it is worth developing the concept of the product/service from the very beginning so that it differs from the ideas of the competition. This will allow the company to gain the so-called competitive advantage. The customer's attention will be drawn to such a market offer which is "better", "faster", "newer" or "cheaper" than those existing on the market. The differentiation of the offer related to the product or service may be based, among others, on: the introduction of additional features of the product, the introduction of additional parameters of the product of a useful character, increasing the durability of the product, differentiating the product with regard to style.

In addition to differentiating a product in terms of its physical characteristics, it is also possible to introduce additional services related to a given product, such as delivery, installation, customer training, repair. It should be emphasised that – especially in the case of services – there is a wide range of possibilities through which one can distinguish the offer on the market. Such an element may be e.g. politeness and high competence of the personnel.

Another instrument of the marketing mix is the price. In a narrow sense, price is the sum of money demanded for a given product or service. A broader approach treats price as the sum of all values that a consumer pays in exchange for having or using a product or service.<sup>237</sup>

It is the only element of the marketing mix that gives the company revenue, the other directly generate only costs. Price is also the only instrument of the marketing mix that a company can change in a relatively very short period of time. However, this does not mean that pricing decisions can be taken hastily.

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<sup>236</sup> *Marketing. Koncepcja skutecznych działań*, red. L. Garbarski, PWE, Warszawa 2011, p. 198.

<sup>237</sup> Ph. Kotler, G. Armstrong, J. Saunders, V. Wong, *Marketing, Podręcznik Europejski*, PWE, Warszawa 2002, p. 742.

It performs a number of functions in a market-oriented enterprise, among which we can point to the information function (by setting a specific price, we show customers what the value of our products is – allowing them to compare the presented offer with what the competition is offering), as well as the promotion and image function (by means of the price, it is possible to compete on the market or additionally encourage the customer to choose a given offer; the price is also an important element in creating the image of the company).

Various factors need to be taken into account when setting prices. These can be divided into internal and external. The former include:<sup>238</sup>

- marketing objectives of the pricing decisions represented by the undertaking, which may include:
  - profit maximisation – many companies try to set prices that will give them maximum profits. They assess the demand and costs associated with alternative prices and choose the price that gives them the greatest profit. The disadvantages of this method are that it ignores other elements of the marketing mix, as well as the reactions of competitors;
  - maximising market share – companies using this objective assume that increased sales lead to lower unit costs and high profits in the long term. This form is associated with the use of a low price strategy in the initial period. The factors that favour low pricing are: a price-sensitive market, a situation in which production and distribution costs decrease with the volume of production, the belief that a low price deters competition;
  - quality leadership – a company producing top-quality products can afford to set the price at the highest level (a high price additionally creates a positive image of a given product on the market);
  - image building – the image is a factor distinguishing the company from its competitors' offerings, and both a “cheap” and an “expensive” company image can be built. A pricing strategy must be adapted to this image, including actual prices and a system of discounts, rebates, bonus purchases, etc;
  - survival in the market – the company fights for survival by facing intense competition, changing consumer demands or recession. In this situation profits are less important. The price will be set at a level to keep the company “alive”;
- marketing mix strategy – price-related decisions must be linked to decisions on product development, distribution and promotion to create a coherent and effective marketing programme;
- costs – fixed / variable / total costs. Experience (learning) curve – is a graphical representation of the reduction in average unit production costs as production experience is accumulated. The level of total costs must be, in the long run, the lower limit of the range within which the company can set the price.

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<sup>238</sup>Ph. Kotler, G. Armstrong, J. Saunders, V. Wong, *Marketing...*, pp. 743–760.

Among external factors influencing the price level are: market and demand (e.g. types of competition in the market, types of demand), costs, prices, competitors' offers, as well as social and political conditions.

In the marketing practice, three methods of price setting are distinguished:<sup>239, 240</sup>

- cost-based method – the determined price must cover the incurred costs and bring the company a profit. Here, the price is determined on the basis of average costs (the quotient of total costs and production volume) per item and the assumed profit. Profit is determined as a percentage of costs (e.g. 20% of costs) or a fixed amount (e.g. profit from a production unit of 10 PLN);
- a demand-based method – the basis for determining the price is the existing or projected demand; on the basis of marketing research the volume of demand and its price elasticity should be determined in each segment;
- a competition-based method – consists in making price decisions on the basis of an analysis of prices of competitors. Starting point – the lead price, i.e. the price at which the company with the largest market share sells its products.

In recent years, many operators do not set fixed, rigid price lists, but try to establish relatively flexible prices for their services through price negotiations.<sup>241</sup>

Distribution is also among the instruments of the marketing mix. It includes a number of activities involving the delivery of manufactured products to buyers. On the part of the enterprise, in turn, it is important to minimise costs associated with delivering the product to the consumer.<sup>242</sup>

The distribution process includes a great number of activities related to the physical movement of products, e.g. transport, storage, maintenance, processing, refinement, where their task is to satisfy the requirements of consumers as fully as possible. The good or service is thus to be provided to the customer in accordance with his or her needs, at the right time and place.<sup>243</sup>

When starting a business, there are several distribution-related decisions to be made, among which are: the choice of distribution channels with all the elements that make them up, manner of moving products from the place of production to the place of destination, software for handling orders, keeping stocks, etc.<sup>244</sup>

Distribution channels are of fundamental importance for the entire distribution system in an enterprise. They are formed by a chain of successive links (institutions and individuals) through which the product is moved from the manufacturer

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<sup>239</sup> Por. Ph. Kotler, G. Armstrong, J. Saunders, V. Wong, *Marketing,...*, op. cit., p. 743–760.

<sup>240</sup> G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., pp. 94–104.

<sup>241</sup> *Marketing usług logistycznych*, ed. G. Rosa, M. Jedliński, U. Chraćol-Barczyk, Wydawnictwo CH Beck, Warszawa 2017, p. 140.

<sup>242</sup> Marketing mix, <https://poradnikprzedsiębiorcy.pl/-dystrybucja-jako-element-marketingu-mix>, [23.05.2021].

<sup>243</sup> E. Mazurkiewicz, *Stosowanie narzędzi marketingu w działalności podmiotu gospodarczego*, Instytut Technologii Eksploatacji – Państwowy Instytut Badawczy, Radom 2005, p. 18.

<sup>244</sup> *Marketing usług logistycznych*, op. cit., p. 164.

to the buyer. In addition to products, the following market streams flow through the distribution channel: information, negotiations, promotions, orders, payments, product ownership and sales risk.<sup>245</sup>

Taking as a criterion the number of participants involved in supplying the product to final buyers, distribution channels can be divided into direct and indirect. In the case of the direct channel, the manufacturer independently, at his or her own expense and risk, reaches final buyers with the products. A direct distribution channel may take the form of sales through the sales department, company outlets, vending machines and sales through the media (mail, catalogues, newspapers, radio, TV, telephone, Internet).<sup>246</sup>

Indirect distribution channels involve at least one intermediary link between the producer and the buyer. A distinction is made between:<sup>247</sup>

- commercial intermediaries (wholesalers and retailers) who purchase the product in their own name and on their own account with a view to reselling it by acquiring title. They may provide not only selling but also warehousing, delivery, advisory services, etc;
- intermediaries acting in the name and on behalf of the manufacturer (commercial agents), who do not take title to the product but actively participate in the creation of purchase-sale transactions.

The choice of the distribution channel is determined by many factors, including the type of product, the territorial reach of the target market, the resources of the enterprise, its competences and the possibility of establishing cooperation with intermediaries. Nowadays, many companies use both options, combining the advantages of direct sales with the benefits of using intermediaries in the channel.<sup>248</sup>

The last element of the marketing mix is promotion. It includes a set of activities and means by which the company provides the market with information characterising the product and/or the company, shapes the needs of buyers, as well as stimulates and directs demand. The most important promotion instruments include:<sup>249</sup>

- advertising – any paid form of non-personal presentation and promotion of goods and services (e.g. TV, press, radio, Internet, print, outdoor advertising, etc.);
- sales promotion – including various short-term incentives to try or buy a product (e.g. competitions, games, lotteries, samples, coupons, discounts, tying, etc.);
- public relations and publicity – all activities aimed at promoting or creating the image of a company or its individual products (press release packages, press conferences, visual identification, sponsorship, etc.);

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<sup>245</sup>G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., p. 119.

<sup>246</sup>*Ibidem*, p. 120.

<sup>247</sup>*Ibidem*, p. 121.

<sup>248</sup>G. Sobczyk, A. Celoch, *Marketing współczesnej...*, op. cit., p. 121.

<sup>249</sup>Ph. Kotler, *Marketing*, Dom Wydawniczy Rebis, Poznań 2005, pp. 573–574.

- personal selling – personal and direct presentation of an offer by a seller to a potential buyer (sales meetings, samples, demonstrations, etc.);
- direct marketing – establishing direct relations with the company’s customers via the Internet, telephone, etc.

The main factors that should be followed when selecting the most optimal promotion instruments for a given company (the so-called promotion-mix bundle) include, e.g.:<sup>250</sup>

- the type of product to be promoted (e.g. for investment products or raw materials, personal selling works better, while for mass consumption products – advertising);
- the phase of the life cycle the product is in (e.g. at the moment of launching a product on the market, advertising is of particular importance, while at the moment of decreasing interest in the product – sales promotion);
- the purpose of promotional activities (e.g. if the purpose of promotion is to increase sales of a product, advertising and sales promotion are used, and if the purpose of promotion is to improve the company’s image, public relations activities are chosen);
- the nature of clients (if the clients are final purchasers of a product, advertising is advisable, if intermediaries – personal selling is a proper option);
- the cost of reaching one addressee with a message (the most expensive is personal selling, and the cheapest is mass advertising);
- the range of influence of a given promotional instrument (if we care about a wide audience – we choose advertising, if on a smaller scale – public relations activities).

The marketing mix for services can be seen as a system with seven elements (7Ps). In addition to the above 4Ps, there are other 3Ps: people, process, and physical evidence.<sup>251</sup>

The “people” instrument includes the personnel interacting with the customer – both directly and indirectly. The “process” element involves methods used by a company to deliver a product to its customers, while providing them with the best possible experience. Physical evidence, on the other hand, includes tangible elements and experiences that assure the customer that the company’s offer is genuine.<sup>252</sup>

The tools from the marketing mix spectrum allow planning the enterprise’s offer, which is usually preceded by the implementation of marketing research. All decisions related to the individual elements of the marketing mix are the responsibility of the enterprise itself – the product concept, setting the price level, determining the means of distribution and promotion of products or services. If all the P’s are optimally designed, selling the offer prepared by the enterprise is not a special challenge, as customers are attracted by the value proposition. In today’s networked

<sup>250</sup> A. Sznajder, *Sztuka promocji*, Business Press, Warszawa 1993, p. 166–167.

<sup>251</sup> *Marketing usług logistycznych, op. cit.*, p. 36.

<sup>252</sup> Marketing mix, <https://www.ventureharbour.com/marketing-mix/>, [20.05.2021].

world, the concept of the marketing mix has evolved to emphasise greater customer participation in the process of planning and offering products and services to the market. According to Ph Kotler et al., the 4Ps should be replaced by the 4Cs concept, which includes:<sup>253</sup>

- co-creation,
- currency,
- communal activation,
- conversation.

In marketing 4.0, the co-creation, i.e. the active participation of customers in the product development process, is of particular importance in the product development concept. Involving customers in the work on the product increases the chances of successfully launching it on the market, and also increases the possibility of personalising it, which in turn improves the value proposition. In terms of changes in price as a marketing instrument, it is important to highlight the emergence of so-called “dynamic pricing”, i.e. setting flexible prices depending on demand and the use of available resources (previously used in the hotel or airline industry, among others). Thanks to this approach to setting price levels, companies can optimise their profitability by offering a given customer a price that is the result of an analysis of their shopping habits, proximity to shops and other aspects of the customer profile. In this approach, the price becomes a kind of currency, where its value fluctuates according to market demand.<sup>254</sup>

The distribution instrument in marketing 4.0 also has another form. The most effective distribution channel is becoming the so-called horizontal distribution, occurring between Internet users (e.g. Airbnb in the hotel sector, or Uber in passenger transport). In the digital world, customers demand immediate access to products and services, which can only be achieved through proximity to other web users, which is the essence of social activation. Marketing 4.0 also defines promotion differently. It ceases to have the character of one-sided communication. Thanks to social media, customers are able to respond to messages sent to them. They can also hold conversations with other customers about promotional messages. A platform for talking about brands are rating systems to which data is provided by customers, such as TripAdvisor or Yelp.<sup>255</sup>

The set of marketing instruments referred to as the 4Cs offers greater opportunities for success in the age of digital economy. The most important aspect here becomes engaging customers in the co-creation of product value.

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<sup>253</sup> Ph. Kotler, H. Kartajaya, I. Setiawan. *Marketing 4.0...*, *op. cit.*

<sup>254</sup> *Ibidem.*

<sup>255</sup> *Ibidem.*



### 3.3. Marketing research – essence, methods and techniques

Marketing research plays a special role in conducting business activity. Properly planned and implemented research can help in taking many decisions related to the functioning of an enterprise.

Marketing research means systematic planning, collection, analysis, transfer of data and information essential for the marketing situation in which the enterprise is located. These are processes and procedures consisting in collecting and analysing data and formulating information which is necessary to take decisions.<sup>256</sup>

The most important objective of research is to provide information to support decisions on production, trade or service activities. The detailed objectives of marketing research include: definition of the target market, selection of market segments for the activity of a given enterprise, determination of the market absorption capacity as well as the expected interest in the product, determination of the market value of the proposed products/services, selection of product distribution channels between the enterprise and the customer, as well as selection of the most effective promotion methods.<sup>257</sup>

Marketing research allows to plan a better communications and sales strategy, and thus to significantly reduce the risk of potential losses related to the introduction of a product or service that will not be accepted by customers.

The most common division of research methods used in marketing is the division into quantitative and qualitative methods. This division is determined primarily by the nature of the research problem and the nature of the collected data: in the case of quantitative research we deal with numerical data, while in the case of qualitative research – with non-numerical data. Quantitative research answers the question “how much?”, qualitative research answers the questions “what?”, “how?” and “why?”

Quantitative research is used to describe reality in a numerical dimension (usually the frequency of occurrence of given phenomena), and the collected data are therefore numerical in nature. They make it possible to measure the range of various opinions and social views. The research tool used in quantitative research is a questionnaire with a high degree of standardisation. It is carried out on large samples of respondents, usually selected randomly. Thanks to expressing respondents’ opinions in a numerical form, it is possible to apply statistical analyses and present data in the form of percentages, means or complex mathematical models. Quantitative surveys make it possible to transfer conclusions from a sample of respondents (e.g. 1,000 adult Poles) to the population from which the sample was drawn (i.e. all adult Poles). Due to the numerical

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<sup>256</sup>Ph. Kotler, *Marketing, op. cit.*, pp. 128–129.

<sup>257</sup>T. Sztucki, *Marketing przedsiębiorcy i menedżera*, Agencja Wydawnicza Placet, Warszawa 2000, pp. 85–88.

character of the obtained results, the interpretation of the obtained empirical material in the case of quantitative research is more objective than in the case of qualitative research.

Qualitative research, on the other hand, provides a deeper understanding of new or hitherto unexplored phenomena in all their variety and complexity. Qualitative research allows to better understand the problems of particular groups covered by the research as well as the motives of people supporting or opposing the implementation of specific projects. Qualitative research covers a small number of respondents, selected in a targeted manner (according to predefined criteria), whose opinions, feelings, ways of thinking are analysed in depth. It should be remembered that the interpretation of research results may be burdened with subjective views of the persons conducting the research. Table 3.2 presents a summary of differences between qualitative and quantitative research.

TABLE 3.2. Comparison of quantitative and qualitative research methods

Differentiation criteria	Quantitative methods	Qualitative methods
What questions do they answer?	"how much/many?"	"what?," "how?," "why?"
Measurement tool	Standardised questionnaire (questions with a constant, fixed form; closed questions prevail)	Scenario (this tool is only an outline of the topics covered in the interview; open questions)
Types of questions	Most questions are conclusive by nature	Most questions are exploratory by nature
Sampling	Random, per quota	Deliberate
Sample size	Larger samples (200–1,000 persons)	Smaller samples (10–50 persons)
Influence of the researcher on the course of the study	Smaller	Greater
The possibility to generalise the results per population	Possibility of quantitative generalisation of results per population	No possibility of quantitative generalisation of results per population; possibility of qualitative generalisation of results
Method of interpreting results	Using statistics – more objective	No use of statistics – freer and more subjective (interpretative analysis of results)

SOURCE: authors' elaboration based on: D. Maison, *Jakościowe metody badań marketingowych* [in:] *Badania marketingowe. Od teorii do praktyki*, ed. D. Maison, A. Noga-Bogomiński, Gdańsk 2007, p. 5.

The most popular research techniques include surveys, as well as qualitative interviews.

Surveys make it possible to learn about a specific phenomenon, determine its scope, range, level of intensity, and then assess and, as a result, design its modification. They provide quantitative and comparable data. In survey research two basic techniques of data collection are distinguished: the questionnaire, which is filled in by the respondents themselves, and the questionnaire-based interview, in which questions are asked and recorded by a trained interviewer. Figure 3.3. illustrates the division of survey research techniques.

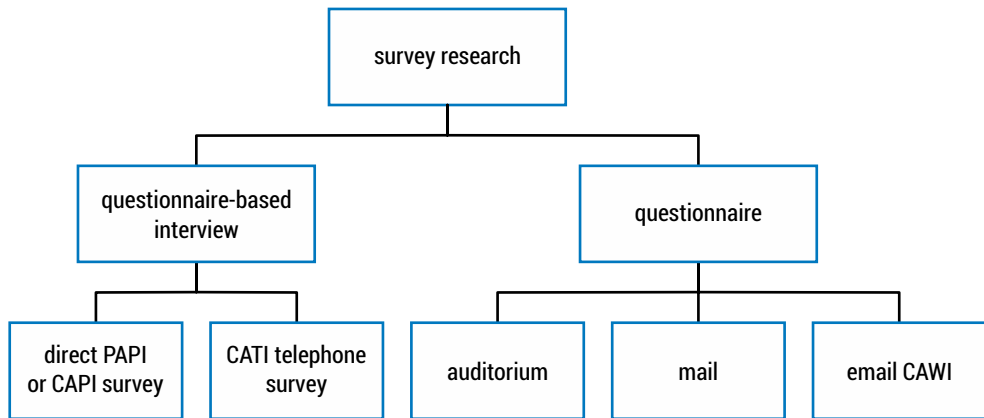


FIGURE 3.3. Survey techniques

SOURCE: authors' elaboration.

Depending on the method of data collection, surveys can be divided into: mail, auditorium, email (CAWI – Computer Assisted Web Interviewing). A mail questionnaire is a relatively cheap research technique, however, it has its disadvantages, among which the following can be indicated: low percentage of returned questionnaires and the related lack of control over the research sample (no possibility to predict who will take part in the research). An auditorium questionnaire is distributed for self-completion among respondents gathered in one place, e.g. during meetings, training sessions, school or university lectures. Such a survey provides a higher level of sample completion. An email survey (CAWI), on the other hand, is an electronic form sent to respondents by e-mail or posted on publicly accessible websites. However, only people with access to the Internet participate in surveys, which causes problems with sample representativeness. Another disadvantage is the low return rate, lower than in face-to-face interviews. On the other hand, the strengths of this method are low costs and the speed of obtaining results.

As regards the second technique of data collection in survey research, the following types of questionnaire interviews are distinguished: paper and pen personal interviews (PAPI), computer assisted personal interviews (CAPI), and computer assisted

telephone interviews (CATI). The PAPI consists of a personal conversation between the interviewer and the respondent, conducted according to a questionnaire printed on paper and containing questions regarding a specific research problem. Interviews may be conducted in respondents' homes, places of work, on the street or other frequented places. The respondents' answers are recorded by the interviewers in interview questionnaires. Computer Assisted Personal Interviews (CAPI) are interviews conducted using an electronic questionnaire (called a script). The interviewer, while conducting the interview, reads the questionnaire questions from the computer screen and enters the obtained answers into the computer memory. The use of computer assistance enables an automatic logical control of the obtained answers, signalling errors during the interview and controlling the consistency of the given answers. An important advantage of the method is that it eliminates the need for data entry (transferring data from paper questionnaires to electronic carriers). This method also gives more control over the work of interviewers than paper questionnaire interviews and allows visual materials (photographs, films) to be presented during the interview. Thanks to automatic saving of the results in the database, it also provides quick access to partial results.

Computer Assisted Telephone Interviews (CATI) are similar to CAPI, however, the interview is not conducted in person, but by telephone. Similarly to CAPI interviews, by means of phone conversation interviewers ask the respondent the questionnaire questions visible on the screen and enter the answers into the computer memory. However, telephone interviews should be short (maximum 15 minutes), and questions should not concern sensitive or personal issues. Computer-assisted telephone surveys are conducted from central telephone studios of research institutes, consisting of a number of workstations (approximately several dozen) equipped with a computer-telephone installation.<sup>258</sup>

The research tool used in surveys is a questionnaire, usually with a fairly high level of standardisation. The standardisation of the questionnaire consists in asking all respondents the same questions in the same order, and among them closed questions, i.e. questions in which the respondent is asked to select an answer from a list of possible options prepared by the researcher, have a considerable advantage. In open-ended questions, on the other hand, the respondents provide answers themselves, without any guidance from the interviewer. The analysis of the collected data as a result of surveys is carried out by means of specialised statistical packages (software), and its effects are collective tabular statements and graphical presentation of data in the form of charts.

Unlike survey research, which provides quantitative data, field research techniques described in this section provide qualitative data that cannot be expressed in numbers. They allow for a deeper and more thorough understanding of the phenomenon under study in its entire context.

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<sup>258</sup> Cf. E. Glińska, M. Florek, A. Kowalewska, *Wizerunek miasta – od koncepcji do wdrożenia*, Wolters Kluwer, Warszawa 2009, pp. 59–60.

The most popular qualitative research techniques are: Individual In-depth Interviews (IDI) and Focus Group Interviews (FGI).

An IDI is an approximately one-hour conversation between a respondent and an interviewer (moderator). This interview, due to its unstructured nature and low degree of standardisation, is closer to a natural and unplanned conversation. It takes place according to an interview agenda (scenario), containing only the thematic threads that should be taken up in the interview. In-depth interviews are often used in the case of difficult recruitment of respondents (who would be difficult to gather in one place), and also when the subject of the research concerns sensitive issues. The IDI technique is used in situations where the problem requires a much deeper insight into the views and attitudes of the respondents than is possible using a simple questionnaire interview. Within this technique semi-standardised and free interviews can be distinguished.

IDIs give the respondents the opportunity to fully express their feelings, emotions or opinions (even the more controversial ones); explain the motives of their conduct; present their life experiences; obtain information about their deeper needs. It is a very good research technique when there appears a need to obtain not only a simple evaluation of some situation or phenomenon, but we also want to understand the process of its generation, as well as the freedom and openness of expressing opinions. An IDI is a technique that provides an intimate atmosphere and the associated sense of trust.

When asking questions in an interview, various techniques can be used to facilitate interesting and in-depth statements from the interviewees. These techniques include the following:

- questions about uncommon experiences, which aim to reach hidden categories and cultural relations;
- use of self-stimulators, i.e. showing photographs, films, drawings, which allow to focus the subject's attention on a given topic;
- asking questions of a projective test nature, such as word association tests, drawing tests, sentence completion tests. Questions using projection tests facilitate penetration of unconscious or difficult to verbalise opinions.

Another type of qualitative interview is an FGI, i.e. a group discussion involving 8–12 people, selected with regard to certain common characteristics (related to e.g.: gender, age, place of residence, economic status, etc.) or having common experiences, related to the research topic. This discussion is led by a moderator and lasts approximately 1.5–2 hours. The research tool is a framework scenario. The basic attribute of the group interview method is the group dynamic, understood as the interaction between the members of a given group and the moderator conducting the interview. This interaction guarantees better integration, communication and creation of an atmosphere of openness among people with similar problems and opinions.

As in the case of an IDI, in group discussions it is possible to use projective techniques in the process of asking questions to participants. Such techniques include e.g.: an open-end test, the test of word associations or the sociodrama (during which

the participants of the interview play roles given to them). Professional focus meetings are conducted in special rooms, the so-called focus rooms, equipped with audio-visual equipment and recording devices as well as a venetian mirror.

The advantages of group interviewing include: the safety effect (the participants feel that the responsibility for the words said during the interview is spread over the whole group), the snowball effect and the stimulation effect (one participant's statement stimulates other people to speak), and the spontaneity effect (each participant can take the floor at any time). Difficulties related to the use of an FGI as a research technique include issues related to maintaining discipline in the group during the discussion, as well as problems with sound recording, especially when several people try to speak at the same time. It should also be stressed that the quality of the obtained material is influenced by the person of the moderator, especially his or her knowledge of the research problems and experience in conducting group discussions. Gathering the group in one place at one time can also be problematic.

Both qualitative techniques produce similar results, hence, the choice of either technique is often determined by practical considerations – the ease of gathering respondents in one place (accessibility of respondents), cost and speed of implementation. The argument behind choosing focus groups is the need to confront the opinions of individual participants and the benefits associated with group dynamics (mutual interaction stimulating the exchange of views and revealing differences). The argument in favour of individual interviews, on the other hand, is that the researcher has more control over the interview situation than in the case of multi-interviewee discussions.

In summarising the characteristics of qualitative interviews as research techniques, it is important to emphasise their flexibility. The form and sequence of questions asked in interviews largely depends on the respondents' answers to previous questions. Other advantages include the possibility of gaining an in-depth understanding of the respondents' attitudes and opinions. Moreover, compared to surveys, qualitative interviewing techniques are relatively cheaper and the results can be obtained more quickly. It is also worth emphasising that qualitative research is characterised by greater accuracy (the feature of research concerning whether the measurement actually corresponds with what we think, or something else), but lower reliability (i.e. dependability, understood as the chance of obtaining the same results if we carry out the same measurement many times). The main limitations of qualitative interviews include the inability to generalise conclusions from the sample to the research population, as well as the subjectivity of the researcher in the process of describing and reporting research results.

### 3.4. Brand management as a contemporary form of marketing

In contemporary marketing, a special role is played by the brand. A strong and recognisable brand is indicated as one of the most important sources of competitive advantage for a company. Sometimes marketing is treated as synonymous with the creation of a brand. The brand is the glue that binds all marketing activities carried out by the company.<sup>259</sup>

The main reasons for the growing importance of brands in the organisation's activities include:<sup>260</sup>

- the development and diffusion of new technologies, which make it possible to copy a product in a very short time and thus shorten its life cycle;
- globalisation and integration processes, which result in the need for companies to communicate with an ever-wider audience;
- a constantly widening market offer, which causes a greater need for companies to stand out on the market than before;
- an increase in demand from customers for information about the offer, which minimises the risk associated with the purchase of products;
- increasing diversification of customer needs;
- trends in contemporary customer behaviour, expressed in treating consumption as a way of expressing one's identity, personality and lifestyle;
- the growing importance of intangible resources in the global economy as the most unique and difficult to copy assets of an organisation.

In marketing 4.0, the goal of a company's efforts is not only to get a customer to buy a product, but more importantly to get them to become a brand advocate. Indeed, advocates talk about brands on social media. At the same time, consumers' attention and trust is now directed towards their social and family circles, rather than the advertising message.<sup>261</sup>

One of the earliest definitions of a brand is "a name, symbol, logo, or combination thereof, designed to identify the goods and services of a seller or a group of them and to distinguish them from competitors."<sup>262</sup> This definition is no longer up to date. According to J. Kall, a brand is a combination of a physical product, a brand name, packaging, advertising and accompanying distribution and pricing activities, a combination that, by differentiating the offerings of a given marketer from those of its competitors, provides distinctive functional and/or symbolic benefits to the consumer,

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<sup>259</sup> M. Dębski, *Kreowanie silnej marki*, PWE, Warszawa 2009, p. 9.

<sup>260</sup> M. Hereźniak, *Marka narodowa. Jak skutecznie budować wizerunek i reputację kraju*, PWE, Warszawa 2011, pp. 41–42.

<sup>261</sup> Ph. Kotler, H. Kartajaya, I. Setiawan. *Marketing 4.0...*, *op. cit.*

<sup>262</sup> Ph. Kotler, *Marketing*, Gebethner & Ska, Warszawa 1994, p. 410.

thereby creating a loyal group of purchasers and enabling to achieve a high market position.<sup>263</sup> This definition emphasises the customers' participation in creating the brand, takes into account their opinions, feelings, emotions, associations that the brand evokes in their mind.

According to the most current approach, the essence of the brand is its ability to create positive relationships with customers, which will translate into maintaining or increasing sales of the branded product.<sup>264</sup>

A brand is a product, but characterised by different dimensions that distinguish it in some way from competing products designed to meet the same needs. These differences can be rational and material – relating to the performance of the branded product – or symbolic, emotional and intangible – relating to what the brand represents.<sup>265</sup> A brand is an important element in building customer confidence in the product and service of a particular business or service provider. It is the promise of an ongoing delivery of a specific set of features, benefits and services to the buyer.<sup>266</sup>

A strong brand fulfils many functions, providing various benefits for both the customer and the company. Among the benefits of the brand in relation to the customer, the following can be identified:<sup>267, 268, 269</sup>

- the promise of a repeatable combination of benefits;
- facilitation of the buyer's decision-making process;
- security associated with a guarantee of high quality and support from the company (service);
- the ability to distinguish a product from competing products;
- satisfaction of consumers who purchase and use products with strong brands;
- prestige in the environment, standing out, demonstrating a position, greater self-confidence (social function);
- belonging to a group of product users, the joy of participating in a joint adventure.

Among the benefits of a strong brand that a company can achieve are the following:<sup>270, 271</sup>

- it builds authenticity, originality, recognition;
- it builds customer loyalty by stimulating repeat purchases;
- it gives products psychological value;

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<sup>263</sup>J. Kall, *Silna marka. Istota i kreowanie*, PWE, Warszawa 2001, p. 12.

<sup>264</sup>H. Szulce, K. Janiszewska, *Zarządzanie marką*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 13.

<sup>265</sup>K.L. Keller, T. Aperia, M. Georgson, *Strategic Brand Management. A European Perspective*, Pearson Education, Harlow 2012, p. 5.

<sup>266</sup>Ph. Kotler, *Marketing, op. cit.*, p. 423.

<sup>267</sup>D.A. Aaker, *Managing brand equity*, The Free Press, New York 1991, p. 17.

<sup>268</sup>M. Dębski, *Kreowanie..., op. cit.*, p. 25.

<sup>269</sup>H. Szulce, K. Janiszewska, *Zarządzanie..., op. cit.*, p. 19.

<sup>270</sup>M. Dębski, *Kreowanie..., op. cit.*, p. 25.

<sup>271</sup>H. Szulce, K. Janiszewska, *Zarządzanie..., op. cit.*, p. 19.



- it fosters a higher level of prices and margins – products with strong brands generally allow their value to be valued at a higher level, which is important from the point of view of enterprise development;
- it generates higher turnover – demand for branded products is less vulnerable in times of economic crisis;
- it brings greater familiarity with the product among customers – the rates of spontaneous and assisted familiarity with the brand are higher;
- it ensures greater publicity – strong brands appear more often in conversations between consumers, also between partners (mainly B2B area);
- it ensures more intensive presence on shop shelves – stronger brands are placed by retailers in areas that generate more turnover.

As the definition of product has moved beyond traditional goods and services with the dawn of the new millennium, the boundaries of brand management have expanded in parallel with this process. The concept of a brand has a wide application. It can be given to a tangible good, a service, a commercial establishment, a person, a place, an organisation, as well as an idea.<sup>272</sup>

Creating a brand is described as branding, which is the process or procedure of designing, planning and communicating the name and identity of, for example, a tangible good, a service or an institution in order to build and/or manage its image.<sup>273</sup> A brand identity is a set of brand associations that a company wants to build and maintain, in other words, an aspirational external brand image.<sup>274</sup> The brand image is the sum of beliefs, attitudes and impressions that a person or group has in relation to a specific object.<sup>275</sup> Associations of this kind, occurring in the perception of recipients, form the basis for purchasing decisions and brand loyalty.<sup>276</sup>

The company (on its own or with the help of an advertising agency) develops a brand identity. The task of such an identity is to define the meaning and vocation of the brand. The identity must therefore precede the image. The image, on the other hand, is created as a synthesis of all the signals emitted by the brand (brand name, graphic signs, products, advertising, etc.). It is therefore the result of the decoding, the extraction of the meaning of these signals by the consumer, as well as their interpretation. The image describes the way the public perceives the brand.<sup>277</sup> Brand identity is defined by the brand manager, while the image is the picture of the brand that appears in the mind of the viewer (figure 3.4). Brand managers can disrupt the original

<sup>272</sup> K.L. Keller, T. Aperia, M. Georgson, *Strategic Brand...*, *op. cit.*, p. 5.

<sup>273</sup> S. Anholt, *Competitive Identity. The New Brand Management for Nations, Cities and Regions*, Palgrave Macmillan, New York 2007, p. 4.

<sup>274</sup> D.A. Aaker, *Strategic market management*, John Wiley and Sons, New York 2007, pp. 168–169.

<sup>275</sup> H. Barich, P. Kotler, *A framework for marketing image management*, “Sloan Management Review” 1991, 32 (2), Winter, pp. 94–104.

<sup>276</sup> D.A. Aaker, *Managing Brand Equity*, The Free Press, New York 1991, pp. 109–110.

<sup>277</sup> J. Kall, *Silna marka...*, *op. cit.*, p. 25.

brand identity by taking additional actions to imitate competitors, by opportunism and by idealising the brand. Furthermore, differences between the aspirational image (identity) and the actual image may be caused by competitors' actions, communication noise, distortions occurring during the decoding of information messages by customers, efficiency in brand communication, consistency of communicated brand values with its actual attributes and external factors.<sup>278</sup>

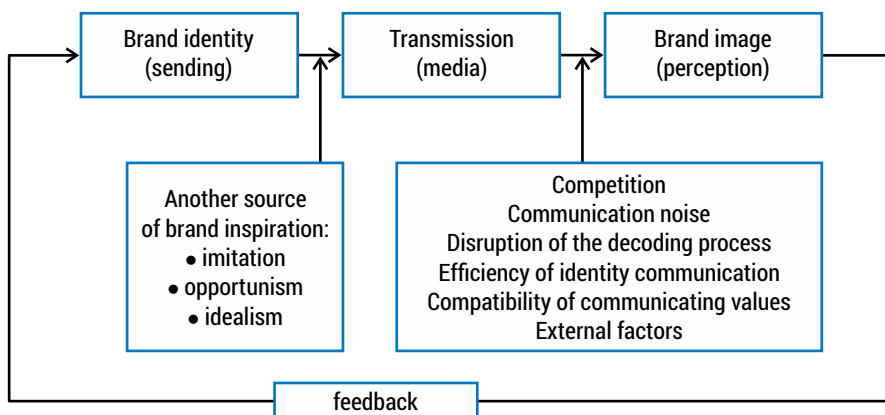


FIGURE 3.4. Brand identity and brand image

SOURCE: H. Szulce, K. Janiszewska, *Zarządzanie marką*, Wydawnictwo UE w Poznaniu, Poznań 2012, p. 45.

The branding strategy comprises three main stages:

- diagnosis of the situation (“where are we?”);
- formulation of brand identity (“where do we want to go?”);
- brand communication (“how do we get there?”).

A diagnosis of the situation involves the implementation of marketing research to determine the specific characteristics of the target group to which the branded product is directed. The aim of the research should be to identify not only demographic but also psychographic characteristics of the target group that will mainly determine purchasing decisions (the so-called “consumer insight”, i.e. learning about motives, expectations, lifestyle, behaviours and the entire path of the consumer on the way to purchase (important people, key moments, points of contact with the brand, sources of knowledge about the brand). Marketing research conducted at this stage should also determine what should be the differentiating aspect from the competition (identification of competitive brand strategies). The last issue is to define what value or benefit is offered to the client. It should constitute an answer to the results of “consumer insight”, which allowed to identify a hitherto unsatisfied need of potential buyers.

<sup>278</sup>H. Szulce, K. Janiszewska, *Zarządzanie..., op. cit.*, p. 45.

In the phase related to the definition of the brand identity, a tool called “the brand pyramid” is particularly useful (figure 3.5). It facilitates the process of identifying the attributes, benefits, personality and essence of a new brand launched on the market. At the same time it allows the monitoring and repositioning of brands already existing on the market.

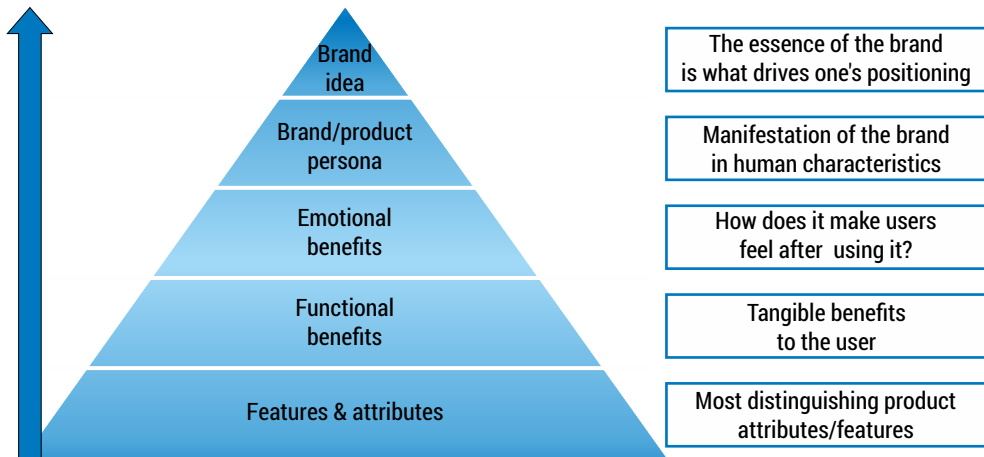


FIGURE 3.5. The brand pyramid

SOURCE: <https://knowledge.insead.edu/blog/insead-blog/how-to-build-a-brand-pyramid-8491>, [23.05.2021].

Completing the pyramid to define brand identity starts from the bottom, identifying the unique qualities and attributes that characterise the product we want to brand. Then we define the functional (material) benefits of this product, indicating why customers should reach for this product, what rational problem this product will be able to solve. The next step is to answer the questions: how do customers feel after using the product? The emphasis here is on creating a story that convinces the customer that the product will enable them to experience certain emotions. In the brand pyramid we also answer the question: who would our brand be if it were a person? How would we describe him or her? What values would be important to this person? At the very end, we define the brand idea, its essence.

The biggest challenge in the branding process is to define the “heart” of the brand identity, the starting point of which is the brand essence. The brand essence is usually encapsulated in a single sentence or short statement, reflecting the so-called brand DNA.<sup>279</sup> D.A. Aaker visualises this component of brand identity as a magnet that connects and organises the elements contained in the brand core.<sup>280</sup>

<sup>279</sup> M. Florek, K. Janiszewska, *Defining place brand identity. Methods and determinants of application*, “Actual Problems of Economics” 2013, 12, pp. 543–553.

<sup>280</sup> D.A. Aaker, *Building Strong Brands*, Simon&Schuster, Sydney 2010, pp. 78–102.

After defining the attributes, benefits and essence of the brand, it is necessary to focus on the selection of the so-called brand elements that co-create or strengthen the sources of brand strength and make up its identity. They should be chosen in such a way so that they positively influence brand awareness and image, and create strong, favourably evaluated and unique associations.<sup>281</sup>

Brand elements include:<sup>282</sup>

- a brand name, which should be unique and constructed in such a way that the consumer, not knowing the product, is able to identify certain characteristics of it by its name alone;
- a logo – a graphic element symbolising a given brand; a logo may take the form of a logotype – a word or a group of words presented in a specific typeface, designed to uniquely identify the brand. Just like brand names, their graphic symbols should be easy to remember. A simple appearance and a reference to the meaning familiar to buyers helps them do this. If a designer comes up with a too complicated shape, behind which there is no meaning familiar to buyers, graphic symbols will not fulfil the hopes placed in it;
- a slogan – a short phrase conveying key information about the brand, which contributes to its strength;
- a brand hero, i.e. a symbol connected with the brand with human or animal features, which appears in marketing communication.

Well-chosen elements refer to meanings familiar to buyers, make it easier for them to recognise and recall the brand in purchase situations, and thus contribute to increasing its strength.

The key elements related to contemporary brand communication, which are worth taking into account in a company's operations today, include:<sup>283</sup>

- multi-channel marketing – “the consumer journey” should be realised through a large number of session devices and platforms, the selection of which should depend on the specific nature of the target audience;
- personalised experiences – the more experiences are tailored to individual users, the more engaging marketing messages become and the more customers are interested in a given brand;
- marketing automation – with the development of online marketing, brands need to automate as many repetitive tasks as possible in order to effectively manage multi-channel campaigns, keep costs down and achieve the fastest possible growth.

There is no doubt that the ways in which brands communicate are becoming more challenging every year, as technologies and consumer trends become more complex.

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<sup>281</sup> J. Kall, R. Kłeczek, A. Sagan, Zarządzanie marką, ed. II., Wolters Kluwer business, Warszawa 2013, p. 147.

<sup>282</sup> *Ibidem*, pp. 147–149.

<sup>283</sup> Komunikacja marki, <https://www.ventureharbour.com/marketing-mix/>, [23.05.2021].

When designing brand promotion campaigns, it is important to consider that a contemporary brand should behave as a close friend of the customer, i.e. meet the following conditions:<sup>284</sup>

- be always available – because today’s consumer is short of time and wants products and services here and now, without waiting;
- be attractive and interesting – so that spending time in its company gives value to existence, just like moments with the loved ones;
- be human – listen, advise and involve customers in the different phases of their development, (just like in a relationship with a friend);
- be wise – on the one hand, to be a provider of content – useful and interesting, on the other hand, to give constantly new, innovative solutions – like a friend bringing news from the world;
- be moral and conscious – why it exists and through its existence give meaning to the consumer’s life.

A brand, like a friend, should deliver satisfying, engaging experiences to customers. It is important that these experiences are delivered in a multi-channel manner, while being consistent and encouraging interaction and relationship.

### 3.5. Internet marketing as a means of brand creation and communication

E-marketing (Internet marketing, digital marketing) is a range of activities carried out via the Internet to promote a company, brand, product, service, as well as their sales and build customer relations.<sup>285</sup>

Website positioning is an important step that brings a company closer to success. This increases brand recognition and even builds trust towards the company. High positions on the Internet guarantee traffic, greater customer interest and, consequently, a higher level of sales of products and services. Additionally, it should be noted that this is an extremely positive form of marketing, as it is not pushy. It is the customers who look for the necessary information, while the companies suggest ready solutions and respond to queries. The content of the presented information is of great importance.

Content marketing is a strategy aimed at creating and distributing valuable content targeted at a specific audience. This form of marketing is based on building positive and long-term relationships with customers and clients.<sup>286</sup> In today’s digital age,

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<sup>284</sup>Ph. Kotler, H. Kartajaya, I. Setiawan, *Marketing 4.0...*, *op. cit.*

<sup>285</sup>E-marketing, [https://www.brandnewportal.pl/narzedzia-e-marketera/narzedzia-marketingu-internetowego/#Narzedzia\\_marketingowe\\_dla\\_automatyzacji\\_marketingu](https://www.brandnewportal.pl/narzedzia-e-marketera/narzedzia-marketingu-internetowego/#Narzedzia_marketingowe_dla_automatyzacji_marketingu), [25.05.2021].

<sup>286</sup>Content marketing, <https://www.brandnewportal.pl/content-marketing/content-marketing-i-7-narzedzi/>, [26.05.2021].

before customers make a purchase, they decide to check the product on the Internet. Obviously, it is impossible for a company to control all the comments that appear on its products and services. Therefore, they should provide customers with full access to information, because the content they post will be perceived as reliable and professional. They can provide it in different forms (figure 3.6).

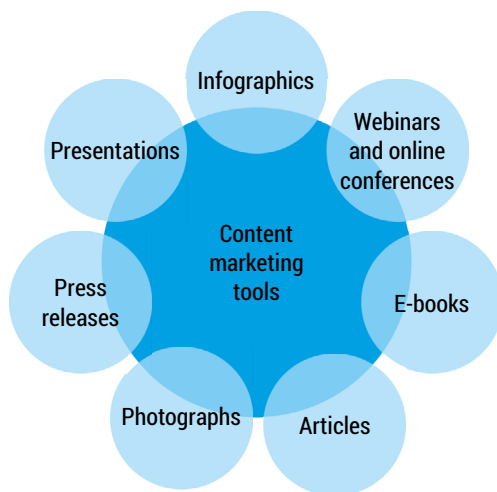


FIGURE 3.6. Content marketing tools

SOURCE: authors' elaboration.

Content marketing tools include:

- infographics, which are usually presentations of numerical values, percentages, charts and processes using attractive graphics. This form of content marketing is extremely popular and well-respected. In order to create eye-catching graphics, the company needs to hire a graphic designer or use available tools for creating infographics. Among those available on the market, it is worth mentioning Visually, Easelly or Piktochart;
- webinars and online conferences are an attractive form of product presentations, they do not require significant financial outlays and the recipient can participate in the meeting from any place. They are based on live transmission, allow interaction with the presenter, and are an excellent tool to attract people looking for solutions. The most commonly used communication platforms include: Vimeo, Click Meeting, Microsoft Teams and Zoom;
- e-books, which can take various forms, i.e. guides, reports, newsletters, brochures. They are highly valued by recipients, especially those seeking expert knowledge;
- articles, which are a valuable batch of knowledge that can be distributed both through internal channels (the company's website or blog) and external channels (portals). Articles allow to build the image of an expert in the industry, to stand out among the competition;

- photographs, a form of content marketing, the importance of which depends on the industry. For example, the fashion industry relies more on photos for inspiration than the IT industry;
- press releases, which have a huge impact on the brand image in the media. However, it is important to know the principles of webwriting. Without them, even the most valuable information will not be placed in the media (both the content and the form count);
- presentations are a typical element of the work of a sales department, whose representatives present a product and its benefits during a conversation with a client.<sup>287</sup>

E-mail marketing uses e-mail for marketing purposes. The basic tasks of e-mail marketing are to communicate with customers by e-mail, to create and analyse the mailing base, to prepare the content of individual messages that will reach the contractor, and to encourage potential customers to use the offer proposed by the company.<sup>288</sup>

Google Ads is the most common paid advertising system in search engines (Google). With Google Ads one can create own ads and personally select keywords related to the company and its profession. Advertising formats are divided into:

- text messages directed to Google's browser;
- graphic banners placed on Google's advertising network;
- video formats shown on YouTube.

Within these three formats, it is possible to create advertising that will be displayed to a specific target group.<sup>289</sup>

Facebook Ads is Facebook's advertising system. Advertising is displayed not only on Facebook, but also in Messenger, on Instagram and in the Audience Network. An advanced tool, which is Facebook Ads Manager, allows to create campaigns targeted at selected groups of people, which significantly affects their effectiveness, because the ad will reach the right people.

Advertising on Facebook is shown to users at various stages of the purchasing process. Due to precise targeting, each of them can become a potential customer. This means that the right ad configuration allows the company to reach people in the target audience. Using Facebook Ads will not only attract new customers, thereby building awareness of the brand, but will also remind regular customers of the company.

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<sup>287</sup> Narzędzia content marketingu, <https://www.brandnewportal.pl/content-marketing/content-marketing-i-7-narzedzi/>, [30.05.2021].

<sup>288</sup> E-mail marketing, <https://www.heuristic.pl/blog/e-marketing/6-najbardziej-popularnych-narzedzi-do-e-marketingu;96.html>, [03.06.2021].

<sup>289</sup> Google Ads, <https://www.grupa-tense.pl/google-ads/>, [03.06.2021].

Facebook Ads campaigns give the opportunity to create a message using several universal ad formats. Users can be reached by means of photos, videos, events (stories), carousel format (videos or images), slideshows, collections (presentation of an offer), demos (interactive preview of an application before downloading it), as well as by presenting an ad on Messenger.<sup>290</sup>

An online auction is the process of bidding for a particular good offered for sale on an auction site. The starting point is usually the asking price, from which the bidding begins, i.e. potential buyers offer an increasingly higher price for the good on sale. The purchase is made by the entity which offers the highest price within the auction. Online auctions are an important sales channel from which many users start their purchasing path.

The following types of auctions can be distinguished:

- classical (English) auctions – consist in the fact that the price of the goods is increased by the persons who joined the bidding. The auction ends after a specified time. The item is sold when the buyer bids higher than the minimum amount set by the seller;
- Dutch auctions – work in the opposite way to classic auctions; the seller sets the minimum and starting price, which is also the highest bid amount. It will be automatically lowered by the buyers. Bidders may only bid once for the price they are willing to pay for the item;
- single and multiple (simultaneous) auctions – a multiple auction means that the seller can place several auctions for the same product. The auction is won by several buyers at the prices they have bid for;
- instant – characterised by a short duration – usually up to 60 minutes. There is often no minimum price, and the starting price is relatively low. Within the specified time, the person who offered the highest price for a given product wins the auction;
- competitive auctions – these are auctions where there is no traditional way of bidding. The winner is the one who places the highest bid, but the buyer knows neither the minimum price at which the seller is willing to sell the product, nor the bids of other participants in the auction;
- reverse auctions – where items are put up not to be sold, but to be bought. Those who want to sell the product bid against each other;
- vertical – also known as sectoral auctions, where goods from one sector or possibly from several basic ones are displayed;
- horizontal – where a wide variety of goods from many industries are displayed.<sup>291</sup>

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<sup>290</sup> Facebook Ads, <https://www.ideoforce.pl/e-marketing/reklama-w-social-media/facebook-ads/>, [03.06.2021].

<sup>291</sup> K. Czajkowska, *Rynek e-commerce – jego specyfika i perspektywy rozwoju w Polsce*, “Journal of Modern Management Process” 2016, no. 1, <http://docplayer.pl/22320581-Rynek-e-commerce-jego-specyfika-i-perspektywy-rozwoju-w-polsce.html>, [03.06.2021].



One of the first places where this could be done was the auction service e-Bay, which was established in 1995. In Poland it was only 4 years later that Internet users had the same opportunity, when the precursor of Polish retail trade – Allegro – launched its platform.<sup>292</sup>

Online auctions are a business model specific to both B2C, C2C and C2B sectors.

Viral marketing is an element of e-marketing activities aimed at creating a situation in which Internet users themselves disseminate news related to the company or its activities. The goal of such campaigns is to create attractive material, which will interest the recipient to such an extent that he or she will spread the content on the Internet on their own initiative or pass it on to someone during a traditional conversation.

A successful viral marketing campaign is always a great success for marketers, as there is no clear recipe for it. The first such actions were born by accident and the authors themselves were surprised by their effects. Such action should be: positively charged, surprising, brilliant. Here, video and graphic materials work best. Funny and ambiguous content brings excellent results.<sup>293</sup>

When one runs an online business, online tools become extremely useful for organising and supporting your work. It is important to emphasise that these are not just reserved for experts. Nowadays, these tools are created in such a way that they are as easy to learn, simple to use and automated to a certain extent. Promotional tools can exist in a paid version – e.g. on the basis of a subscription fee – and in a free version. E-marketing tools are used by both experts and amateurs, which makes them even more popular. Examples of tools are shown in the figure below.

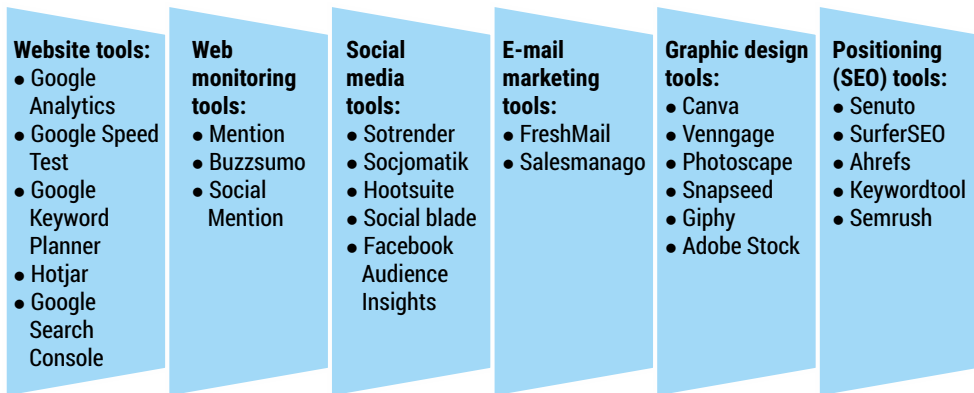


FIGURE 3.7. Examples of online marketing tools

SOURCE: *Przykładowe narzędzia marketingu internetowego*, <https://www.bitrix24.pl/blogs/aktualnosci/darmowe-narzedzia-marketingu-internetowego.php>, [06.06.2021].

<sup>292</sup> R. Marek, *Determinanty rozwoju polskich biur podróży w Internecie*, Promotor, Warszawa 2015.

<sup>293</sup> Marketing wirusowy, <https://www.conquest.pl/marketing-wirusowy-czym-jest-i-jak-dziala/>, [03.06.2021].

Sales of products or services can be supported by many methods and tools. The choice of instruments should be a well-considered decision, and the use of these tools should be carried out by competent persons. It should be borne in mind that the essence of online marketing is to build and strengthen the relationship between the brand and the recipient, and these ties can easily be spoiled by an incompetent use of specific tools. It is worth bearing in mind that on the market there are also modern marketing tools with a complex purpose (e.g. Wordpress – a platform for creating blogs and simple websites;<sup>294</sup> wFirma.pl – online accounting software;<sup>295</sup> team management software: Asana, Bitrix24, or Trello).

Intentional and conscious use of tools is a guarantee of success. Additionally important are the channels distributing information that relates to the product or service, i.e.:

- owned media are all channels over which the company has full control. They are owned by the company, and using them in the content marketing strategy usually does not involve any fees. The most popular media are: company blog, website, social media (Facebook, Youtube, Pinterest, Snapchat, Twitter etc.);
- paid media is aimed to promote content owned by the company (owned media). Some of the most popular solutions include bands, search engine advertising, sponsored articles and, increasingly, commercial engagement by brands with popular influencers;
- earned media is a message whose creator is not the company, but the recipient; it is content generated by Internet users. It can be, for example, a comment under an article or a post, an opinion on a product or a brand posted on the Internet.

The aim of brand communication on the Internet should be to skilfully use all three categories of media. The graphic below shows the common area, which includes owned, paid and earned media. This central place should constitute a unique media mix and the main goal of e-marketing, i.e. POEM (Paid Owed Earned Media).

The promotion of content across owned, paid and earned media channels requires the creation of an action strategy taking into account each of them.

To sum up, skilful use of Internet marketing allows to:

- reach potential customers at any time of day or night;
- relatively easily analyse the group of recipients, which translates into the precise creation of messages adequate to the needs of potential customers;
- automate certain marketing processes, which in turn saves not only time, but also money;
- measure conducted activities and their optimisation for achieving better results;
- strengthen ties with the recipients by interacting with them.

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<sup>294</sup> Wordpress, <https://pl.wordpress.org/>, [06.06.2021].

<sup>295</sup> Księgowość online, <https://wfirma.pl/>, [06.06.2021].

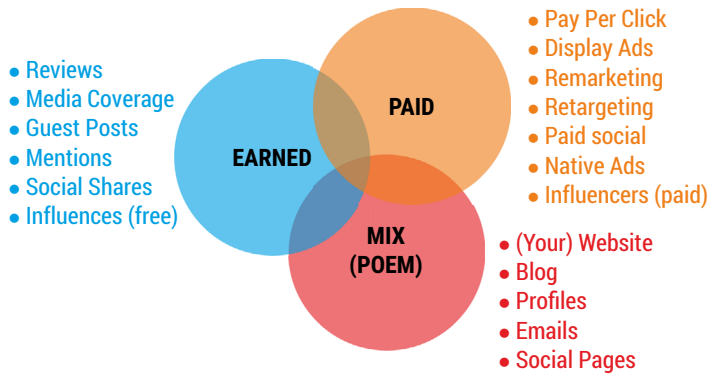


FIGURE 3.8. The digital marketing mix

SOURCE: *The digital marketing mix*, <https://www.theukdomain.uk/difference-between-owned-earned-and-paid-media/>, [30.05.2021].

Internet marketing, in contrast to traditional forms of promotion, makes it possible to strengthen bonds with recipients much more efficiently and on a larger scale. It is important that this type of activity is aimed at both current customers and potential ones.

However, it should be remembered that customer service through online marketing is a long-term and well-documented investment. Nothing is lost on the web, information spreads very quickly, so taking care of the quality of customer relations can affect the reputation of the company.

Therefore, only by having a well-thought-out strategy of online communication, defined goals, methods of achieving, monitoring and measuring them, can the company achieve valuable results.

A skilful use of e-marketing techniques increases brand awareness, consumer involvement and loyalty, builds interest among potential customers and ultimately – increases conversion and the financial result.

# Conclusion

This publication aims to popularise entrepreneurial attitudes and provide the knowledge necessary to succeed in business.

Running a business undoubtedly involves having financial resources. Access to capital is the basic factor determining the possibility of establishing and the subsequent running and developing a company. Companies' own capital is often insufficient to carry out investment plans, so there is a need to raise external capital. The book emphasises that the forms of raising this type of capital are diversified both in terms of required collateral, formal procedures and generated costs. The choice of an appropriate form of outside capital depends on the industry in which the company operates, the specifics of its operations, or the size of the company. Determining the optimal capital structure (proportion between equity and debt capital) affects the market value of the company and is one of the most important decisions made by the owner.

Another important issue is to build a team whose work makes it possible to carry out even the most difficult tasks, which will translate into outstanding results. Well-functioning teams achieve much better results than people working individually. This is ensured, among other things, by knowledge sharing and cooperation. Different skills and experiences combined with strong motivation create a synergy effect, thanks to which the team can react faster to market, economic and technological changes. Therefore, work teams are becoming a key element of the organisational structures of companies, and not only multinationals, but also small and medium-sized enterprises and any other type of organisation.

Apart from the issues related to recruiting and motivating suitable members for the team, aspects related to the forms of employment of employees are also discussed. The publication presents various options which can be beneficial for both the employer and the employee.

Much attention is also paid to the marketing aspects of the business. It is shown how the approach to marketing has evolved. The authors emphasise that marketing in an enterprise is a way of thinking that concerns everyone – both managers and their subordinates. One of the basic aspects of the marketing concept is directing business activity towards a specific group (groups) of clients. Separated market segments determine the area of activity of the enterprise and are the starting point for the formulated action programme. The target market for the planned undertaking includes a set of entities – individuals, households, companies or institutions – which are potential buyers of products or services offered by the enterprise. Estimating the number

of potential customers is not a simple matter, which is why much attention is paid to it. The following part of the publication focuses on the tools of the marketing mix and the role of marketing research. Properly planned and implemented research ideas can help in taking many decisions related to the functioning of an enterprise. The publication also focuses on brand management, since a strong and recognisable brand is indicated as one of the most important sources of competitive advantage of an enterprise. In the last section, the issue of online marketing as a method of brand creation and brand communication is discussed. It presents a number of activities which are carried out via the Internet in order to promote the company, brand, product, service, as well as their sale and building customer relations.

To sum up, there is no doubt that actions supporting the establishment or development of a business combine several different tools, which would be difficult and time-consuming for entrepreneurs to find and obtain on their own. Setting up and running one's own business requires good preparation. The process of establishing young enterprises is particularly supported – directly and indirectly – by both public and private sectors, which often work together. One of the initiatives stimulating business start-ups is the Acceleration of Business Support Ecosystem (ACCESS), which has produced this publication.

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