



Palacký University
Olomouc

KNOWCON 2019

**Knowledge on Economics and Management:
Profit or Purpose**
Conference Proceedings

Tomáš Talášek - Jan Stoklasa - Pavla Slavíčková
(Eds.)

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Contents

Anita Atanassova: Accounting Treatment of Cryptocurrencies	5
Saila Collan, Mikael Collan: Benchmarking classifiers – comparing the GOWA-varint of the similarity classifier with selected classifiers	12
Lubomír Darmo: Structure of Expenditures on Research and development in the Slovak Republic	19
Daniel Dujava: Determinants of Trust in Local Currency: Case of CEE Countries	26
Jana Geršlová: "Mrs. Body Shop"- Business Vision	33
Blanka Gosik: The marketization of services in small towns in Poland	37
Dagmar Halová: Use of the marketing mix in a recruitment campaign	43
Eva Jaderná, Martin Mlázovský, Marek Tomašík: Changes of B2B promotion in the Czech Republic	50
Zuzana Janková: Stock Price Prediction Problem Using Artificial Intelligence	56
Dorota Janus: Efficient leadership in the 21st century	63
Marian Kachniarz, Magdalena Kalisiak-Mędelska, Jacek Chądryński: Functional and administrative conditions of city development	70
Enikő Korcsmáros, Renáta Machová, Zoltán Šeben, Lilla Fehér: The euro celebrates 10 years in Slovakia – a brief economic background	77
David Kosina: Trust In Global Virtual Cooperation	84
Wojciech Kozłowski: Polish Passive System of Supporting the Sector of Micro, Small and Medium Enterprises	91
Zuzana Kozubíková, Martin Telecký: Education and Financial Literacy of Technical Universities Students	98
Ondřej Kročil, Richard Pospíšil: Disabled People as a Target Group of Social Enterprises? The Case of the Czech Republic.	104
Jaroslava Kubátová: The Current Role of Business Purpose	110
Ivana Lennerová: Analysis of the consequences of the UK's departure from the EU, with an emphasis on Slovakia	117
Dagmar Lesakova: Cognitive age and its relevance to targeting seniors	124
Lubica Lesáková: SME's Involvement in Eco-Innovations: An Empirical Study from Slovak SME's	130
Ján Lisý: The Convergence Process of Slovakia as Member Country of the EU and the Eurozone	137
Jan Máče, Sylva Skupinová, Eliška Smotlachová: Changes in the Age Structure of the Czech Republic Population in years 2000 - 2017 and Their Influence on Major Economic Factors of the State	143
Karolina Macháčková, Martin Pop: Innovative pedagogics and education for sustainable development in knowledge management of public and private educational	149
Marta Martincová: The Influence of Fiscal Policy on the Economic Cycle	156
Petra Martíšková, Roman Švec: What should companies do to be really considered socially responsible?	162
Ivana Mišúnová Hudáková, Juraj Mišún: Trends in control(-ling) in the light of new challenges	169
Ludmila Mládková: How the New Generation of University Students See Themselves	176
Michal Müller: What are Existential Disruptions in Managerial Practice? Overcoming Disruptions as Prevention of Burnout	181
Aleksi Muukkonen, Mikael Collan, Jyrki Savolainen: Weather-proofing electricity networks - high costs, what else? The Finnish case	188
Marcel Novák: Stability in the banking sector in European Union	195

Bogdan Oancea, Marian Necula, Richard Pospisil: Using Web-scraping techniques to build a consumer price index	202
Martin Pop, Karolina Macháčková: Economic and Motivational Aspects of Retirement Requirements as a Part of Public Finance	208
Richard Pospisil: Monetary policy regime and inflation targeting of the Czech National Bank	213
Adéla Pracná: Leader in the 21 st century	220
Magdalena Raftowicz, Mirosław Struś, Monika Wodnicka: The need to rebuild the food supply chain	227
Mária Rostášová, Tatiana Čorejová: The Issue of Marketing Communication Strategy of Universities	233
Daria Sarti, Teresina Torre: Knowledge sharing behaviours among travel agents. The role of job resources and demands	240
Pavla Slavickova: Recording of Liabilities in Accounting Systems	247
Jan Stoklasa, Ondřej Kročil, Tomáš Talášek, Richard Pospíšil: The benefit of socially responsible investments – a case study of the profitability of two funds and their interlinkages	254
Tomáš Talášek, Jan Stoklasa, Ondřej Kročil, Pavla Slavíčková: Liquidity controlling system based on financial accounting – a proof-of-concept	261
Eva Vincencová, Roman Horák: Aspects of the taxation of Immovable Property	268
Zdeněk Vrba: Modern methods of customer satisfaction measurement	275
Radosław Walczak: Is a profitable job more satisfying than a purposeful one? Comparing the role of autonomy, relatedness and competence at work with subjectively evaluated wages as predictors of work satisfaction.	281

SME's Involvement in Eco-Innovations: An Empirical Study from Slovak SME's

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Abstract: Eco-innovation and green technologies are key to Europe's future and they are at the heart of the EU policies. To step towards the sustainable economic growth, there is a need for much more eco-innovations to appear in SMEs. The aim of the paper is to present the results of empirical research aimed at SME's involvement in eco-innovation activities in Slovakia and to compare them with those of EU 28 average. The stress will be given to 5 eco-innovation activities contributing deeply to the circular economy. Based on the research results formulated are the implications for SMEs managers and policy makers in Slovakia concerned with the SME's involvement in eco-innovation.

Keywords: Eco-innovation, small and medium enterprises, Slovak Republic.

JEL classification: O31

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1. Introduction

Europe's economic growth over many decades has been fueled by the intensive use of resources. However, today it faces multiple challenges of stimulating the growth needed to provide jobs and well-being to its citizens, while ensuring that this growth is economically and ecologically sustainable.

The Eco-Innovation Action Plan launched by the European Commission in December 2011, is a significant step forward for eco-innovation moving the EU beyond green technologies and fostering a comprehensive range of eco-innovative processes, products and services. The European Union "Green Action Plan for SMEs" introduced in 2014 brings together two important priorities for the European economy: supporting SMEs and promoting resource efficiency. The European Commission set the overall goal of "enabling SMEs to turn environmental challenges into business opportunities" (Green Action Plan for SMEs, 2014). To step towards the sustainable economic growth, there is a need for much more eco-innovations to appear in SMEs.

2. Theoretical background

The inclusion of environmental aspects into the discussion of innovation leads to the comparably new area of environmental, green or eco-innovation. Schiedering et al. (2012) found that the first expression – environmental innovation – was favoured in the 1990s while the latter two notions were increasingly used within the last 5 years. Furthermore, the authors compared different scientific definitions that were suggested as a terminological basis for research area. In the following, several definitions are briefly summarized to illustrate the terminological variety.

Fussler and James (1996) define eco-innovation as "new products and processes which provide customer and business value but significantly decrease environmental impacts". Hillebrand and Driessen (2002) state that green innovation "does not have to be developed with the goal of

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reducing the environmental burden" but it "does however, yield significant environmental benefits". Arundel and Kemp (2009) emphasize that eco-innovation "can be motivated by economic or environmental considerations".

Rennings (2000) perceives eco-innovations as new approaches that help reduce environmental burdens or achieve ecological targets and differentiate between technological, organizational, social and institutional ones. Including the economic perspective, Ekins (2010) considers as eco-innovation as being both economically and environmentally beneficial. These examples illustrate the broad variety of notations.

Concentrating on most of these aspects and with reference to the OECD general definition of innovation, the expert group of the Eco-Innovation Observatory defines eco-innovation as the following: Eco-innovation is the introduction of any new or significantly improved product (good or service), process, organizational change or marketing solution that reduces the use of natural resources (including materials, energy, water and land) and decreases the release of harmful substances across the whole life-cycle (EIO, 2011).

Eco-innovations are the key to Europe's future and they stay at the heart of the European Union's policies. The EU's economic prosperity and well being is linked to its natural environment and the global demand for resource-efficient solutions will be a source of jobs and economic growth in the years to come. Eco-innovation is therefore a powerful instrument that combines reduced negative impact on environment with a positive impact on the economy and society (Ekins, 2010).

3. The aim and methodology of the research

The aim of the paper is to assess the SME's involvement in eco-innovation activities in Slovakia, to identify the actual and perceived issues (problems, difficulties) encountered with regard to undertaking eco-innovation by Slovak SMEs and to formulate the main implications for SMEs managers and policy makers concerned with the SME's involvement in eco-innovations.

To fulfil the aim of the paper we formulated 2 research questions:

1. What is the proportion of Slovak SMEs undertaking eco-innovation activities and the kind of activities being taken during the years 2014-2016 in comparison to EU28 average?
2. What are the actual and perceived issues (problems, difficulties) that Slovak SMEs have encountered with regard to undertaking eco-innovation?

Our study is qualitative and descriptive in nature and most of the data is based on secondary sources. The data used to assess the SME's involvement in eco-innovation activities come from the survey commissioned by the EC in the year 2016 with the aim to explore SMEs activities in relation to the circular economy (including the eco-innovation activities) in the period of years 2014-2016. The survey was carried out in 28 EU member states. As to the Slovakia 383 SMEs operating in manufacturing, services and in the industry sector were interviewed. Our analysis is aimed at 5 eco-innovation activities: a) waste recycling and minimizing waste generation; b) re-planned energy usage to minimize consumption; c) redesigning products and services to minimize the use of materials or use recycled materials; d) changes to the use of water to minimize consumption and to maximize water re-usage; e) usage of renewable energy sources.

Other sources of secondary data used in our paper represent the official documents and reports of the European Commission and the Ministry of Environment of the SR. The methods used in the paper are the method of casual analysis, deduction, abstraction, comparison as well as the synthesis.

4. Results and discussion

4.1. Results

Research results confirm that during the analyzed 3 years (2014-2016) nearly 62% of Slovak SMEs have undertaken any of the 5 eco-activities, while 38% have not. That means, that 4 of 10 SMEs didn't undertaken any of the analyzed eco-innovation activities during the years 2014-2016. In comparison to the EU average, almost 73% of surveyed SMEs in Europe have undertaken any of eco-innovation activity (that is 11% more than in Slovakia).

Figure 1 presents the share of SMEs that have implemented any of eco-innovation activities (or are under way to implement them) in comparison to EU28 average during the years 2014-2016 (own processing).

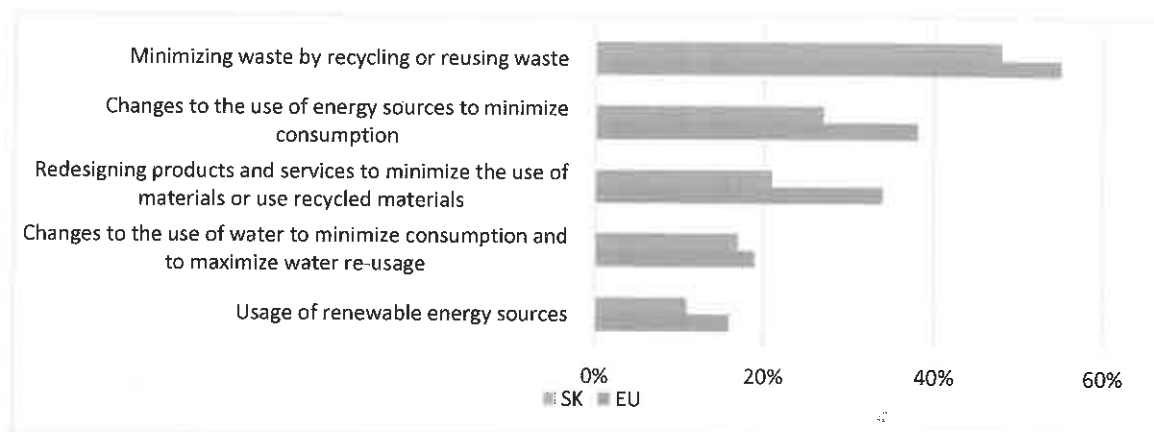


Figure 1: Implementation of selected eco-innovation activities in SMEs

To compare the general position of Slovakia to other EU countries resulting from these results, Slovakia is on 22th place, what is not very favorable result. The situation calls for more detailed analysis (Table 1).

What concerns the *waste recycling and minimizing waste generation*, almost a half (48%) of SMEs in Slovakia minimized within the period of previous three years or has been currently minimizing waste by its recycling or by limiting its generation. Almost 46% of SMEs do not perform these activities and are not going to do them in the future. In average the EU SMEs have performed these activities to a greater extent than in Slovakia (55% of SMEs in EU).

As resulting from the survey, 27% of SMEs in Slovakia implemented *changes to the use of energy sources to minimize consumption* within the previous three years or has been implementing them currently. More than a half of SMEs (59%) do not implement these changes and are not going to implement them in the future. In comparison to EU average, SMEs in European countries implement changes to the use of energy sources to minimize consumption to a greater extend (it is 11% more than in Slovakia).

Only 2 of 10 SMEs in Slovakia (21%) *re-designed their products or services to minimize material inputs and to use recycled materials more efficiently* in the period of analyzed three years, or has been re-designing them currently. Two thirds (67%) of SMEs in Slovakia do not re-design their products and services to minimize material inputs and to use recycled materials more efficiently and are not going to do that. Within EU countries, more than one third (34%) of SMEs have undertaken these activity (it is of 13% more than in Slovakia).

Almost 17% of SMEs in Slovakia (19% in EU) implemented *changes to the use of water to minimize consumption and to maximize water re-use* within analyzed three years or has been implementing them currently. Almost three quarters (72%) of SMEs in Slovakia (70% in EU) are not going to implement such changes.

Every tenth SME in Slovakia (11%) used power from *renewable energy sources* upon the results of the survey in the period of analyzed three years, or has been using its currently. Three quarters of SMEs (75%) do not use renewable energy sources and are not going to use them in the future. As compared to EU-28 countries (16%), Slovakia is characteristic with a lower share of SMEs using renewable energy sources.

Table 1: Share of SMEs that had undertaken any of the following activities during the three years 2014-2016

	Activities*									
	1		2		3		4		5	
	EU	SK	EU	SK	EU	SK	EU	SK	EU	SK
Yes, activities have been implemented	36	8	24	9	21	7	12	5	10	3
Yes, activities are under way	19	40	14	18	13	14	7	12	6	8
No, but we plan to do so	5	5	12	12	9	9	7	8	13	12
No, and we do not plan to do so	38	46	47	59	53	67	70	72	67	75
Don't know	2	1	3	2	4	3	4	3	4	2

* Activities description:

- 1: Minimizing waste by recycling or reusing waste
- 2: Re-planned energy usage to minimize consumption
- 3: Redesigning products and services to minimize the use of materials or using recycled materials
- 4: Changes to the use of water to minimize consumption and to maximize water re-usage
- 5: Usage of renewable energy

Amongst SMEs that have undertaken any of the analyzed eco-activities related to the circular economy, just over six in ten say they have encountered with some of the issues (problems, difficulties) (67%). Over one third of SMEs encountered with the problems of complex administrative or legal procedures (45%), while 31% mention the cost of meeting regulations or standards. One third of SMEs have encountered difficulties in accessing finance (33%). At least one in five SMEs has encountered a lack of expertise (18%) or a lack of human resources (21%).

SMEs that had not undertaken any of analyzed activities were asked why they had not done so. Most of SMEs indicated difficulties in accessing finance (22%). Just over 20% of SMEs cite the lack of a clear idea about investment required (17%) or a lack of expertise to implement these activities (13%), while 16% mention the complexity of administrative or legal procedures or cost of meeting regulations or standards.

4.2. Discussion

Research results confirm that Slovak SMEs are facing many challenges. As the main problems were indicated the low level of waste recycling and high rate of land-filling, low share of SMEs using renewable energy sources and implementing changes to the use of energy sources as well as the share of SMEs re-designing products or services with the aim to minimize material inputs and to use recycled materials more efficiently. These problems appear to be the same in the whole population of Slovak enterprises.

What concerns the waste recycling and minimizing waste generation the waste management remains a great challenge. Despite of the fact that Slovakia generates comparable amount of waste per capita in comparison to similar economies, the overall situation with the municipal and industrial waste management still needs improvement. The annual generation of waste is below the EU average with 1.17 versus 1.67 ton per capita and 83.22 versus 67.87g/Eur. Eurostat statistics for 2016 stated that up to 65% of municipal waste ended up in Slovakia in the landfills and a rate of recycling of municipal waste was only 23% (EIO, 2018). Several SMEs in Slovakia claim a dedication to responsible waste management. However, most of the SMEs implement only partial measures that save costs, but they are far away from a transition to the circular economy. Multinational companies comply mostly with policies of their parent organizations. As far as Slovak enterprises and start-ups are concerned, it is often a matter of their environmental beliefs.

The waste legislation has been undergoing major changes in Slovakia since the year 2015. One of important actions contributing to improvement in this area is the legal Act on Waste, which entered into force on 1st January 2016. It covers critical aspects of waste management, including operation of the Recycling Fund. By 2030, the municipal waste recycling rate (including the preparation for re-use) has to be increased to 60% and the land-filling rate has to be reduced to less than 25% in Slovakia.

Critical is viewed fact, that only one third of SMEs (27%) have implemented changes to the use of energy sources to minimize consumption. The energy intensity of the economy is still one of the highest in the EU, approximately 80% higher than the EU average. The most significant measure implemented in recent years (2015-2016) is the Energy Efficiency Act, which settles a framework for providing energy efficiency audits and support. The goal is to improve energy efficiency and savings and to reduce consumption. Share of renewable energy is coming closer to 14% target in Slovakia and is mostly covered by Slovakia's traditional clean energy sector based on large hydropower plants and supplemented by a small hydro power, biomass and solar. The energy policy of the SR sets main objectives and priorities of the energy sector by 2035 (EIO, 2018). The main aim is to ensure stability of energy supply, efficient use of energy sources to minimize consumption and environmental protection.

According to the results, there is also a need for better water management in the country (namely in terms of infrastructure projects), better approaches in agricultural use and landscape management (drainage and nitrates pollution) and more advanced treatment of urban waste water. Positively are viewed several initiatives from business and non-governmental organizations that focus on promoting better water management in all business sector.

Several instruments to promote eco-innovation in business practices and sustainable production and consumption are well established in Slovakia. These instruments are the ones promoted at the EU level. These include the EU Eco-Management and Audit Scheme (EMAS) and the Environmental

Management System under ISO 14001 (EMS), environmental labelling of products implemented through the European and national eco-labelling schemes, EU Eco-label and Environmentally Friendly Products. However, the results show, that the share of SMEs re-designing their products and services to minimize material inputs and to use recycled materials more efficiently is still in Slovakia low. Though the SMEs have indicated as the main issue they encountered with regard to undertaking eco-innovation activities the financial reasons (cost of meeting regulations and standards and accessing finance), in many cases it is a matter of their environmental beliefs.

Though Slovakia has implemented most of EU environmental and eco-innovation policies and measures into the SR legal system (EC, 2017; Ministerstvo životného prostredia SR, 2014; Ministerstvo životného prostredia SR, 2019), the progress is slow. The need for a new, modern environmental strategy which reflects the actual situation and urgent problems of the whole system of environment has resulted at the new "Envirostrategy 2030 for Slovakia" (Strategic Environmental Policy of Slovakia up to 2030), which was approved in February 2019. The strategy identifies basic system problems, sets 2030 targets, proposes framework measures to improve the current situation and contains also basic performance indicators for verification of achieved results. The strategy underlines the role of eco-innovations.

5. Conclusion

It can be stated that eco-innovations in SME's sector in Slovakia face many challenges. Based on the above analysis, the main implications for policy makers and SMEs managers in Slovakia may be formulated:

- Policy makers in Slovakia should place greater emphasis on sufficient approximation of EU directions to the legal system of the SR. They have to create effective policy programs and measures supporting SME's involvement in eco-innovation and helping to establish a stable platform for SME's eco-innovation.
- Public funding and expenditure in the eco-research and development is still low in Slovakia. (Government environmental and energy R&D appropriations and outlays as a share of GDP were 0.01% in 2016 compared to 0.04% as the EU average.) To tackle with this issue the state, public as well as private institutions, have to be more involved in the financial support.
- Many SMEs indicated difficulties to tackle with administrative and legal procedures as well as with the lack of expertise. This underlines the importance to improve ways and opportunities for SME's participation in knowledge transfer and in learning about best practices. The importance of skills and knowledge as well as building public-private and B2B partnerships for supporting eco-innovation in SME's sector is evident.
- It is necessary to raise SME's awareness about eco-innovations and green business as business with a high added value in relation to the corporate responsibility concept as well as to raise SME's awareness about the necessity to implement stable and continual environmental business strategy.
- In cooperation with central government authorities and professional organizations, academia and non-governmental organizations, the more efficient system of formal and informal environmental education and training for sustainable development has to be implemented.

Eco-innovations call attention to the positive contribution that the SMEs can make to sustainable development and a competitive economy. Hence, eco-innovation is understood as the combined improvement of economic and environmental performance of society.

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