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# MARKET SITUATION OF LUXURY GOODS IN POLAND

*Creating a single, comprehensive definition of luxury is extremely difficult. It is just because of personal and very subjective connotation of the term. The author of current paper tries to demystify the nature of luxury goods and presents situation of Polish luxury goods market from economical as well as customers' perspective.*

## 1. Luxury Concept

The etymology of the word „luxury" is derived from the Latin concept of luxury and luxuria denoting luxury, glamor. According to the Collins dictionary [9], luxury is a term treating about material goods, services, groceries etc., available for narrow social groups with an income higher than the general population. For centuries, economics treated luxury goods as useless and superfluous, giving the fact that luxury concentrates the sphere of desires, dreams, instead of basic human needs [21].

In economics, luxury category has been linked to the income elasticity of demand, and in philosophy it became a part of the extensive discussion regarding the distinction between needs and desires. In modern economics, luxury goods are no longer merely a negative connotation. The luxury goods market is growing rapidly from year to year, making the luxury goods industry becoming increasingly important in terms of creating the national income [23]. The growing market will also make buyers of luxury goods to differentiate and become no longer a uniform group. Luxury goods are now mainly of interest to specialists in marketing and management.

The concept of luxury, although it is commonly used in everyday speech and social sciences, was never precisely defined by science. There is, in fact, no compact theory describing it, nor characterising its consumers showing its specific characteristics and laws that govern it. This is mainly due to the fact that each individual may perceive the concept of luxury differently.

## 1.1. Luxury Definition

Luxury can be defined in a narrow or broad sense. In a narrow sense it expresses a rarity, high value-added, high quality and high price. These features symbolize the idea of luxury in a particular time and a particular culture. Such a definition of luxury does not seem entirely correct, because it does not explain why some goods characterized by those features are in possession of people of a much lower income, often very poor (e.g. TV, electronics, etc.). Therefore, in order to define luxury, one must distinguish between two types of values that are represented by the relevant good – the utility value and symbolic value.
Luxury in the narrow sense refers to goods whose value in use is very high, the symbolic value – small. The concept of luxury in a broad sense treats symbolic value as main one. Buying luxury goods, one gets a very high added value, often elusive intangible. This may be part of a group of similar people, pleasure, prestige, snobbery, contentment, way of life and leisure and so on [3].

The new, widely recognized definition of luxury was created by K. Heine. After analysing the basic definition of this term in the literature he has defined luxury as something, which is desirable, more than ordinary and necessary [15].

The word „luxury" has both the positive and negative meaning. On the one hand, it means splendour, magnificence, splendour, and on the other – the decadence and decline [24]. Luxury can also be seen as a way of life associated with pleasure, comfort, rare and very often, though not necessarily with a high price tag. This ambiguity is conditioned by a history of its meaning. Luxury is subjective and relative category, because persevering luxury goods depend on the perspective from which we consider them [3]: region, time, economy and culture related.

## 1.2. Luxury Goods

Its own special features very often define a luxury. J.N. Kapferer identifies characteristics of luxury goods [17]:

- excellent quality,
- a very high price,
- rarity and uniqueness,
- aesthetics,
- heritage,
- history of the brand,
- the good is not necessary for one's existence.

Luxury goods, as defined by J.N. Kapferer [17] provided extra pleasure to holders, act simultaneously on all the senses and are inherent in the distinguished representatives of the ruling classes.

F. Bourne [4] defines luxury goods as exclusive goods, widely available, but more visible (conspicuous) than necessities. It should be emphasized that psychological motives often to a greater extent, influence on the purchase of luxury goods than on other types of goods. Luxury goods shall be treated as a differentiator for wealth, good taste – their possession excites admiration and respect. Functional features of these assets are of less importance to their purchases [1]. Very often these goods are not as practical as normal or basic goods. An example of this can be luxurious clothes. Luxury goods are bought for their hedonistic and symbolic values, and not because of economic or functional values they represent [22]. These are often products which draw attention, are unique, emotive and characterised by high quality [28].

F. Vigneron and L. Johnson [28] linked together the value of luxury goods and motives of their purchase. They have identified five fundamental values of luxury goods:

- drawing attention,
- uniqueness,
- social values,
- emotional values,
- quality.

Accordingly they assigned the following human motives:

- motives demonstrations associated with the views of T. Veblen,
- snobbery,
- following fashion,
- hedonism,
- perfectionism.

Due to the various interactions taking place between people in a given society, consumers may characterize different perception of luxury goods. In other words, the definition of such goods changes in order of society, depending on sociability and self-expression of its members (in some societies shocking splendour is respected and admired, and other causes outrage and disgust). In the economic literature there is a conceptual model for the values represented by luxury goods. Its authors are P. Wiedmann, N. Hennigs and A. Siebels. They have identified four types of values within the luxury goods [29]:

- financial value represented by the price,
- functional value, which deals with utility, quality and uniqueness of given good,
- the value of an individual, containing in itself the value of the sense of their own identity – value hedonistic and material,
- social value or prestige – showing off and demonstrating the social status.

There should be mentioned also luxury brand, which is one that is selective and exclusive and which has an additional creative and emotional value for the consumer [8]. It sets three specific dimensions for a good to be considered luxurious products: artistic dimension, craftsmanship (with a strong quality, the hand-made and the uniqueness) and international presence in several countries.

## 1.3. General overview of Luxury and Luxury Goods in Theory of Economics

Economic theory uses the category of luxury goods. However it is not considered as a self-concept, it is related to the other categories of microeconomics. In general, luxury goods appear in the literature twice – at microeconomics analysis of demand and supply, in particular for the Veblen paradox [27], and the income elasticity of demand.

When making microeconomics analysis of demand and supply as well as when formulating the law of demand, economists often mention two examples of goods for which the observed relationship between the price of the good and the size of the demand is the reverse to the law of demand formulated by A. Marshall. This relationship applies to goods of lower order (Giffen paradox) and luxury goods (Veblen paradox). Veblen paradox describes the situation when with the increase in price for a given good, quantity purchased of that good increases, and vice versa. It should be stressed that this principle works both ways, i.e. if prices increase the size of the demand for these goods increases, and if they fall – the demand decreases. T. Veblen formulated the evolution of the institutional structure. He understood the institution as complex conventional habits of thoughts and behaviour, including behaviour related to the possession of wealth [2]. T. Veblen published in 1899 *Theory of the Leisure Class*, claiming that with the development of societies evolved unproductive class, called idle class, whose representatives are characterized by not effective behaviour and fancy idleness [27]. It is a characteristic of all strongly hierarchical societies. Unproductive use of time was bringing benefits only to a representative of those classes, and not to the whole of society. T. Veblen argued that money influenced the culture of contemporary conspicuous consumption, idleness and competition in the possession of wealth.

At this point it also is worth to mention an idea of prestige. According to the scientific terminology [1] prestige is included into the so-called theoretical concepts. The term „prestige" is used to emphasise a mixture of respect and dignity and to exclude the position from others [14]. Sociologists gave most of the comments about prestige. However, major changes in the configuration of prestige demonstration originated in the economic sphere. Following Veblen theory [14], first there must be some material evidence, only because permanent state of ownership can and actually demonstrate prestige to the world. In that case, gaining the prestige achieves a meaning, while the environment can formulate their appreciation. Thus, these who are in the various aspects of roles and positions keep the achieved prestige. This happens as a result of the impact of many mechanisms, most importantly rules of supply and demand.

The good becomes the determinant of prestige only if there is strong demand, but the supply is below it – as the demand gap becomes larger, the prestige increases. It is based on external signs, but apart from the desire to impress others, owning luxury goods gives peace of mind and the condition of the internal complacency [14]. In the case of Veblen goods price elasticity is very low, and raising prices practically do not affect consumer behaviour. The term of goods known as Veblen goods, presents things and services widely regarded as a luxury because of their rarity or an exorbitant price. They serve mainly to demonstrate wealth [26]. T. Veblen also introduced the concept of conspicuous consumption into economic theory [27].

Luxury goods are discussed in economic theory also with issues related to the income elasticity of demand. This elasticity measures the response of demand to change the income. In general, income growth causes an increase in demand, though there are goods, for which the demand decreases with the increase of income – those are inferior goods, for which there are better quality substitutes. For luxury goods (higher-level), factor income elasticity of demand has a value greater than 1, which means that the relative change in demand is greater than the relative change in income, and so the demand for these goods is very flexible (it should be remembered that considerations apply to income elasticity, and not to price demand) [26]. Luxury goods are also associated with Engel's law [19], which can be interpreted as meaning that spending on luxury goods or savings appear only in case of high-income (when basic needs have been met). One of the Engel curves clearly shows the relationship between the increase in income and an increase in demand for goods of higher order (luxury). It should be noted, however, that the Engel rights generally apply to middle-income families.

## 2. PEST analysis for a Luxury Industry in Poland

### 2.1. Political Factors

Poland is a good place for the creation of a new company, due to the prevailing democratic system. Poland is also a member of NATO and the EU. It gives a sense of security and stability which are necessary for business. Thanks to this matter, regulations regarding goods sold in Poland are compatible with EU settlements.

In addition, affiliation to international organisations gives an opportunity of expansion of international trade. According to the report of the Ministry of Economics [12], majority of imports to Poland comes from EU countries.

Without any doubt, Polish political environment can be described as stable. Even though electoral preferences change, no drastic transformation is predicted. However, October 2015 brought a change on the political arena in Poland. The conservative political party won the parliament elections. The luxury good market might be alarmed by the fact that this group considered introduction of a luxury tax in 2013, which might have drastically influenced prices of luxury goods [32].

The other characteristic of the Polish reality is its widely known lack of transparency. Analysts [5] emphasise that existence of corruption decreased in recent years. The corruption perceptions index for Poland is ranked 35$^{th}$ out of 175 with a score of 61 (scores range from 0 (highly corrupt) to 100 (very clean)) [25].

## 2.2. Economic Factors

The Polish economy will notice a stable growth in GDP between 2015-2017 of average 3.4% according to the report about inflation of National Bank of Poland [20]. European Commission [30] broadcasts that Polish GDP will grow about 3.3% in 2015 and about 3.4% in 2016 (Working Document of European Comission, 2015).

As stated in the PwC report forecast, Poland is likely to achieve the highest average growth of all the major economies of the EU in the period up to 2050. The real average growth of the Polish GDP is expected to be approximately 2.7% per year by 2050.

According to the author, pragmatic forecasts stem not only from the fact that the Polish society is aging, but also from the matter that after the phase of „catching up" with more advanced economies, a dynamic growth of the Polish economy is going to be more challenging. Decline of population will have a negative impact on Polish economic position in the world during this half of century. In their view, the projected annual real rate of growth of the Polish economy at 2.7% in the years 2014-2050 is favourable against Germany (1.6%), France (1.9%) and Russia (2.1%).

As stated in the report about inflation, the main factor of GDP growth is domestic demand, which is supported by a stable consumption growth. As emphasised by other analysts, the relatively high level of economic growth when compared to other European economies is, indeed, the result of, among others, high domestic demand. In 2014, the domestic demand grew by 4.6% [20], while investments increased by 9.4% [20]. According to Central Statistical Office, higher demand can also be seen in retail sales. In March 2015, it increased by

3.3% year-to-year [6]. The trend occurs thanks to the acceleration of wage growth on the labour market, as well as to a significant increase in investment growth, particularly business-related.

Poland's economic freedom score is 68.6, making its economy the 42nd freest in the 2015 Index [16]. Its score is 1.6 points better than last year, driven by improvements in half of the 10 economic freedoms, especially freedom from corruption, fiscal freedom, management of government spending, and monetary freedom. Poland is ranked 19th out of 43 countries in the Europe region, and its overall score is above the world average.

Over the past five years, Poland's economic freedom score has advanced by 4.5 points, making it the largest improvement in the region. Gains in eight of the 10 economic freedoms include double-digit strides in the financial freedom and the freedom from corruption. In the 2015 revision of the Index, Poland has recorded its highest economic freedom score ever.

The luxury goods market in Poland will grow by 11% in 2017, according to the KPMG report [23]. It means that the luxury goods market will be worth PLN 14bn. The report states that 70% of global luxury brands are available in Poland.

In the coming years the biggest increases should be expected in the segment of luxury jewellery and watches, which in 2014 was worth PLN 368 million, and by 2017 could reach value of PLN 466 million. The market of luxury spirits and jewellery shows that the Polish luxury brands also can be successful, both at home and abroad. Although the market of luxury cosmetics is small, prevailing trends create an opportunity for the niche perfumery.

The labour shortage is another trend, which will emerge in 2015 according to report „Kierunki 2015" by DNP Bank Polski and Deloitte [13]. It means that the number of people entering the labour market will be lower than the number of people leaving it. In subsequent years, the negative balance will continue to grow, what will also accelerate the decline in unemployment (11.7% in the first quarter of 2015) and affect the growth of unit labour costs – with negative consequences for the competitiveness of Polish companies [7].

While Poland's transition to a market-based economy has accelerated, some structural foundations still need to be reinforced. The labour market remains rigid, and business regulations still lag behind standards in Western and Northern European countries. Enforcement of the rule of law is hindered by delays in the court system. Membership in the European Union helps to ease trade restrictions and attract investors, and openness to capital contributes toa budding financial sector.

In the case of the euro area – as shown by the experts – the biggest risk factor of exchange rate in 2015 is the political calendar. This year elections will be held in eight EU countries. There has been a risk connected with crisis in Greece and their possible exit from the Eurozone. Moreover, a referendum on membership of Great Britain in the EU looms on the horizon.

The exchange rate of Polish currency is also negatively affected by the Russian-Ukrainian conflict, due to the perception of gold by investors as a peripheral currency (impact of armed conflict on the economy itself is limited – due to relatively weak trade ties).

## 2.3. Social Factors

According to data from the Central Statistical Office [7], the number of Poles at the end of year 2014 was about 38,478 thousand people, noting the full year negative natural increase at the same time. The last census [7] took place in Poland in 2011. The urban population was accounted for 60.8% of the total population, while 39.2% of people were living in the rural areas. In relation to the previous census in 2002, there was a decline in population in cities of around 204 thousand people and significant (about 486 thousand) increase in the number of rural residents. It stands against the world trend of people migration from countryside to big cities.

At the same time, a positive phenomenon was observed since the last census in 2002 – a steady increase in the level of education. The percentage of people with at least secondary education increased from 41.4% in 2002 to 48.6% in 2011. The most dynamic growth was recorded in relation to higher education, whose share in the total population increased from 9.9% in 2002 to 17.0% in 2011 [7].

It can be formulated that young, well-educated people belong to the aspiring affluent group, earning from PLN 3,700 to PLN 7,100 monthly. In the KPMG report, three other groups of affluent people were highlighted: wealthy, very wealthy and rich [23].

There were 878 thousand of people in Poland in 2014 whose gross monthly income reached above PLN 7,100, including 47 thousand richest people with liquid assets in excess of USD 1 million, also known as HNWI (high net worth individual) [23]. The number of affluent will increase to 1,153 thousand by 2017 according to KPMG forecasts. According to their report, designer or tailor-made clothing is regularly or occasionally purchased by almost 30% of wealthy Poles, 40% of very wealthy with incomes from PLN 10 to PLN 20 thousand, and more than 50% of those earning more than PLN 20 thousand [23]. Wealthy consumers are more often convinced that the choice of a matching suit, made of the highest quality materials, according to individual preferences, distinguish them from the crowd and help to strengthen their position in business and society. Without any doubt, there is a noticeable trend of changing consumer behaviour towards luxury brands.

Poland is on the 15th place among all countries as far as dollar millionaires are concerned. In 2014 50 thousand people who belong to this group lived in Poland and this number will increase to 90 thousand according to the Global Wealth Databook 2014 [11]. Even though the forecasts for Polish prosperity are promising, it should be noticed that the ratio of affluent people to the rest of the country maybe an obstacle for the luxury industry.

The other fact that needs be remembered is Polish mentality. The culture, religion and consumers behaviours are very different from the well-developed countries, where luxury goods markets are growing. The topic of money is the taboo one. Affluent people are treated with disrespect by the rest of the society, what is connected with historical experience of the Polish nation, mainly during the communism. Poland is still dominated by the false belief that the rich steal, and the poor are victims (no matter whose: bad government, greedy entrepreneurs, bad boss, unhappiness etc.). Sayings such as „you have to steal the first million" or „a rich is a thief" are not to be found in any other language than Polish. Poles depreciate their financial successes (they say that they „succeeded", rather than give repeatable strategies for success) or they hide in fear of social ostracism. Being successful in Poland is not a matter of respect, but rather a bad reputation. This complicated mechanism of Polish may occur as a difficulty for luxury brands to build their marketing strategy.

Although the average wealth of Poles continues to grow (USD 22.2 thousand per person in 2014) [7], Poland still continues to find itself tagging along behind Europe in this regard, ahead of only some of the post-communist countries of CEE.

## 2.4. Technology Factors

According to the most known ranking – Global Innovation Index [31], Poland took 45th place among all countries in the world in 2014. It means that the Polish technology development is chasing world leaders, what allows companies to expand their business and provides an opportunity for growth. Bloomberg agency made a similar analysis taking into account more factors, like R&D, manufacturing, hi-tech companies, education, research personnel and patents. In this listing, Poland reached 25th [10] place in 2014. Both reports show that Poland develops as for technology. At the end of 2014, Internet World Stats noted that 67.5% of Polish population has access to the Internet, what grants it 6th place in Top 10 Internet Countries in European Union.

There are not that many threats for luxury industry as for technological means in Poland. In the industry of luxury goods obstacles could be found, however companies deciding to produce or sell luxury goods take into account high investment costs in technology.

## 3. Consumers' Segmentation and Target Groups in Polish Luxury Market

According to report of KPMG from 2014 [23], the potential purchasers of luxury cosmetics are three groups of consumers – the rich, very wealthy and wealthy, and those who wish for such a position – aspiring. The affluent people are characterised by an income qualifying them for the third tax threshold, with gross earnings of more than PLN 7.1 thousand, and are defined as HNWIs (high net worth individuals). Among them, there is a group of rich people – earning more than PLN 20 thousand per month. To get into this category one must have liquid assets worth USD 1 million. Very wealthy people earn between PLN 10 and PLN 20 thousand, while wealthy people between PLN 7.1 and PLN 10 thousand.

The aspiring group consists of people with gross incomes between PLN 3.7 and PLN 7.1 thousand per month as stated in the report from 2010. The author of current research would also include students who are about to enter this group after graduation.

According to the data, it can be estimated that the number of rich people in Poland equals to about 50 thousand people. The wealthy are more than 600,000 people. The largest group is represented by „aspiring", whose count is about 2 million and their average income is approximately PLN 5.2 thousand.

The KPMG study from the year 2010 shows that these groups of consumers want to spend a part of their earnings on luxury goods. The rich spend 18% of their income, wealthy 15%, and aspiring are willing to raise their social prestige by spending no more than about 9% of their earnings. This means that the rich and the wealthy seem the most luxury-oriented and they spent PLN 16.1bn in 2010. Three times more numerous group of aspiring makes a market segment of PLN 11bn annually. Counting those figures per capita, a rich Pole spends PLN 27 thousand on this kind of pleasure annually, while an average aspiring PLN 5.7 thousand per year.

There are also a few thousand richest Poles who transfer their money abroad. When adding this to a substantial emigration, which also supplies budgets of their families in Poland, the total number of people with high incomes, not covered by official statistics, may reach 100 thousand people.

The group of rich, very wealthy and wealthy Poles is heterogeneous. The majority of them characterise with high pragmatic attitude. They buy luxury goods to reap the inner pleasure from high quality, design, and uniqueness of luxury products. However, there are also buyers whose purchases are impulsive, or those who surround themselves with luxury because it is required by their surroundings.

Polish wealthiest residents are mainly people aged 40-59 years which are long enough on the labour market living in one of the major cities in the country. More than half of HNWIs are Polish private entrepreneurs, and one in five is representative of top executives (CEOs, members of directors boards). The most frequently mentioned source of wealth is good work and career, although 22% of them accumulated or increased their wealth by successful investments.

Since this group is inhomogeneous, KPMG made segmentation based on two criteria – motivation and pragmatism – what describe the attitude of the respondents towards the acquisition and use of luxury goods and services [23]. A person with extrinsic motivation surrounds himself with luxury goods, which are demanded by the environment in which he or she dwells. External motivation can be a desire to merge with the group as well as to stand out against others. In contrast, a person with internal motivation benefits intrinsically from goods and services of luxury because they feel a need for them. This kind of person buys luxury products in order to feel better and derive the pleasure from them.

The second deployed criterion is pragmatism. Pragmatic people buy luxury goods because they are characterised by high quality. On the other hand, people with low pragmatism level make spontaneous purchases, less thoughtfully, paying less attention to quality.

The KPMG research resulted with four types of buyers and users of luxury goods and services. It includes connoisseurs, enthusiasts, conformists and stars.

## 3.1. Connoisseurs

Connoisseurs are characterised with intrinsic motivation and high pragmatism. They acquire luxury goods primarily in order to enjoy their high quality. Such people do not surround themselves with luxury to show off, but because they derive pleasure from the exceptional products and services. Choices of these people are always thought out and planned. Their purchases of luxury goods often have the nature of the investment. They pay special attention to the quality and performance of products. Connoisseurs constitute the largest group – up to 52% of affluent Poles.

## 3.2. Enthusiasts

Enthusiast is a person driven by intrinsic motivation and low pragmatism. This kind of people has certain characteristics in common with the stars – the shopping is impulsive and less thoughtful, and the quality and price plays a relatively small role for them. However, it is their inner need that makes them surround themselves with luxury goods. Such people like to visit stationary boutiques, which is a great pleasure for them. The environment in which they live and work, does not significantly affect their purchasing decisions. Enthusiasts represent 17% of affluent Poles.

### 3.3. Stars

The stars are characterised by low external motivation and pragmatism. According to them, luxury goods are a way to build the image in the eyes of others, but the image quite different from conformists. The stars want to stand out from the group, looking for extravagant and unique products. They use luxury goods to emphasise their personality traits. These people attach much less importance to quality and sustainability of the products. They buy in an impulsive and unplanned manner. The stars represent about 18% of affluent Poles.

### 3.4. Conformists

Conformists are people who are characterised by high external motivation and pragmatism. They use luxury goods to build their image. Their professional environment, very often, affects their purchasing decisions. They want to look qualified, but not extravagant, to raise the confidence of customers or business partners. They do not want to stand out from the rest, but their image should be a proof of their prestigious position. Conformists choose products of high quality, durable and reliable, in which they feel comfortably. Their purchases are thought out. Conformists are the least numerous group and account for only 13% of affluent Poles.

## 4. Conclusions

The market potential for luxury industry in Poland was examined through the macro analysis and investigating a segmentation of customers. The analysis was performed in order to provide an overview for luxury companies to help them decide whether to enter within the Polish market or not.

Thus, it is asserted that Poland definitely provides a longer-term growth opportunity for luxury goods. The shifting appetite and behaviour of Polish consumers towards luxury goods will require luxury goods retailers to develop a sophisticated but uniquely Polish approach to reach and satisfy the growing demand for luxury. The expanding middle-class in this developing market are expecting to benefit from developed markets offering superior product selection and availability. The continued growth of the middle class in Poland creates a market segment, where there is an aspiration for the finer things in life, which in turns creates the desire for status symbols. Several economists insist that the continued growth of the middle class creates a market segment where there is an aspiration for the finer things in life, which in turns creates the desire for status symbols. This market has to be monitored by luxury companies as it is likely that the luxury buyers of the future will emerge there. While high earnings are concentrated in the hands of the few, many buyers of luxury brands in Poland are aspirational consumers who will splurge on a product even when they may not be able to afford it.

Although Poland has shown improvement as a consumer market, many entry barriers remain. Luxury companies must assess risk and then decide whether to establish business in Poland. Several areas for further research and decisions had been identified.

It may mean that Poland is a potential terrain for luxury cosmetics companies to introduce their products and to acquaint Polish with this kind of goods. All in all, consumers' analysis showed that trends towards luxury in Poland is just about to formulate. Poles learn luxury and are about to be a great group of potential luxury products' customers.

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# SYTUACJA NA RYNKU DÓBR LUKSUSOWYCH W POLSCE

## Streszczenie

Stworzenie jednolitej i kompleksowej definicji luksusu jest niezwykle trudne. Jest to spowodowane subiektywnym znaczeniem tego słowa. Autorka artykułu podejmuję próbę wyjaśnienia natury dóbr luksusowych i przedstawia sytuację polskiego rynku dóbr luksusowych, zarówno z ekonomicznego, jak i konsumenckiego punktu widzenia.

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# EUROREGION IN THE ROLE OF MANAGEMENT OF STRUCTURAL AID AND AS A NATURAL CLUSTER

*This paper concerns the institutional and organizational structure of the Euroregion. It is multi-level and affects the functioning of the Euroregions, including, but not limited to, organized approach to the use of structural aid under the regional policy of the European Union (EU). The highest level of the organization is the Association of European Border Regions (AEBR), which lobbies for Euro-regions within the EU and provides professional services for broadly understood regional action. In turn, the Euroregion itself is also organized by having institutions. This allows for an orderly performing of tasks at the local level while showing a „different" approach to management, which can take many forms.*

## 1. Introduction

Euroregions and the associated process of euroregionalization are for more than fifty years inseparable elements of post-war European integration processes. Today it would be difficult to imagine the European Union (EU) without Euroregions, which add a special nature to the integration processes, and also distinguish the EU from all other integration groups in the world where there are no similar structures. The Euroregions started their „career" on the Old Continent from the unification mission, settling disputes and buildinga compliant local Europe, convincing about the usefulness of this type of agreement and unity on a larger scale. They were thus the first step to community integration and strengthening of early ties of integration, which in post-war Europe were not easy. So Euroregions thus became the pioneers of European integration, which is developing today in the context of economic and monetary union in preparation for the adoption of the challenges of political union.

Along with the evolution of integration processes Euroregions have evolved too. With the strong support of Germany they have gradually become not only a unifying element, but also the main beneficiaries of EU structural assistance.

Currently, perhaps the unifying role went slightly into the background when compared to other challenges that the Euroregions met with time. These include their place in structural aid and the role of a natural cluster that can be attributed to the Euroregions.

The aim of this study is the presentation of these „new" roles of the Euroregion, namely in the role of managing the structural assistance and as a cluster. With regards to the role of a cluster in the management of structural aid, and even when applying for it, this is where you should take into account several issues. On the one hand, Euroregions have their own central regional office, namely The Association of European Border Regions (AEBR), which lobbies for Euroregions in the EU, on the other hand – Euroregion in itself is an organized structure, which in an organized manner manages the EU structural aid.

The study was designed to find answers to the following questions:

- How the AEBR functions while being a collective management structure for the Euroregion;
- What is the organization of the Euroregion, which gives it an advantage over cross-border region;
- What is the similarity of the Euroregion to the cluster, which also creates a specific structural aid management structure.

## 2. AEBR organizational and management structure for Euroregions

The Association of European Border Regions operates in Europe since 1971 serving the Euroregions and lobbying for them on the forum of EU institutions. Its objectives set out in the statute are as follows:

- Identifying problems of Euroregions, their opportunities and action programs;
- Representing their interests to the government and national and supranational institutions;
- Developing common positions (mainly regarding structural assistance) at the EU forum and lobbying;
- Initiating, strengthening and coordinating intereuroregional cooperation, networking of Euroregions;
- Exchange of experience and information in order to identify and lobby for the common interests of Euroregions and their solutions [1, pp. 74-75].

AEBR implements these goals in practice, inter alia, through assistance in obtaining funds from the EU Structural Funds and their management, conferences and expert advice. In organizing these activities involved are individual institutions of AEBR, therefore, the figure below shows the organizational structure of the association.

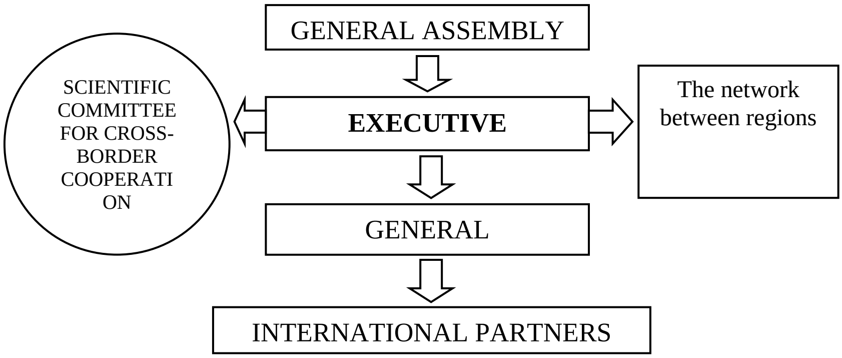


Fig. 1. Relation of AEBR organizational structure
*Source: own elaboration basing on LACE guidebook.*

Organized structure of AEBR causes that its various institutions are responsible for organizing and managing of Euroregions in different parts of Europe, including also ones created from non-EU countries. This structured organization is shown in Table 1

Table 1. AEBR – organizational structure and goals

| **Structure and goals** | | **Description of the structure and objectives of action** |
|---|---|---|
| Organizational structure | General Assembly | It is the AEBR supreme body headed by the chairman elected by the members of the Executive Committee. It has the general and representation tasks, makes decisions about membership, namely calls for new or the exclusion of already operating members, also sets the membership fee. |
| | Executive Committee | It consists of a chairman, his first deputy and three other deputies, a treasurer and a minimum of 20 members representing the cross-border bodies.<br>It deals with the ongoing activities of AEBR to ensure the attainment of its objectives, develops AEBR position on key issues, works with pan-European organizations with regard to territorial cooperation. Also chooses the General Secretary. |
| | General Secretary | Represents AEBR outside to the EU, other organizations and associations. |
| | Scientific Committee for Cross-Border Cooperation | Strives for expansion of euroregionalization, is responsible for its qualitative dimension, increase of dynamics and importance in the socio-economic development of the country being the „owner” of the Euroregion. |
| Goals through the implementation of tasks | – Identifying the problems, determining opportunities, responsibilities and work programs for European border , cross-border regions and Euroregions;<br>– Representing those regions in the national parliaments, other authorities and institutions, including the EU;<br>– Initiating, coordinating and strengthening the cooperation between European border and crossborder regions;<br>– Exchange of experience and information to extract common interests, coordinate them, implement and solve particular Euroregion problems. | |

*Source: own elaboration basing on: [2, pp. 31-47], [1, p. 78].*

All AEBR institutions (described in Table 1) form a compact, cohesive structure of the association, so that there is control over the Euroregions and their active „inclusion" in the socio-economic life of the country in which they operate. With the organized institutional structure of AEBR harmonize the functions of the association, namely presence, networking and advisory.

AEBR representative function is to represent the Euroregions and outlying border regions on the national and European level by:

- submitting of applications for structural aid and indicating the most important problems of the outermost regions and potential problems in solving them;
- activity in organizations and the European institutions;
- cooperation with other European associations such as The Assembly of European Regions, Council of European Municipalities and Regions, Conference of Peripheral Maritime Regions etc.

The AEBR network function lies in the fact that the association has created a wide network of links between cross-border regions and Euroregions, extending beyond the EU member states. This network connects approximately 160 border regions cooperating across borders and euroregionally. As part of this function AEBR initiated a partnership and consultancy in order to bring together regions with similar development issues and interests. Througha network, facilitated is getting to peripheries and solving internal and external problems of mountain, rural or coastal regions. The network also allows the development of specific cross-border cooperation projects which can be implemented within the framework of EU programs from EU structural funds.

The consultative role – as the name suggests – consists of professional consultancy supported by the knowledge that AEBR has on cross-border cooperation. These include the exclusion of areas of cooperation which share common cross-border problems, their spatial development, regional and local policy and assistance in applying for structural funds for the intended projects. So advisory function is a substantive and qualitative complement to the network function [3, p. 271 and more].

## 3. Euroregion as an organization and management structure

The Euroregion is formalized cross-border cooperation. This formalization points to the fact that the Euroregion enables the development of good neighborly relations in various dimensions by institutions that constitute its organizational and management structure. This structure, along with the definition and functions of the Euroregion is illustrated with the help of description in Table 2.

Table 2. Euroregion in definitional terms and institutions of the Euroregion and their functions

| **Expanding the definition of the Euroregion** | **Name of the institution in the Euroregion** | **Functions of the institution in Euroregion** |
|---|---|---|
| – Institutionalized formal relationship signed between national or local government organizations or informal, which was created by professional or scientific associations cooperation in border areas;<br><br>– Formalized structure of cross-border cooperation between regions or local bodies of power, possibly with both, economic and social partners;<br><br>– The agreement of neighboring border regions regarding cross-border cooperation in a wide range;<br><br>– Local institutionalization of cooperation, with full recognition of state borders and the rights of countries participating in the creation of a given Euroregion;<br><br>– Cross-border structure bringing together associations of administrative groups from areas of its composition, for purposes of mutual cooperation;<br><br>– Cross-border organization whose framework is set by similar problems and a binding of relationships, such as readiness for cooperation of individuals and local institutions | Council | It is the highest authority. It specifies the main areas and directions of cooperation. Establishes strategic goals and the order of their achievement during the implementation of joint projects. The Council acts as the coordinator of Euroregional cooperation. It gains the necessary resources for its financing and ensures its proper course. Typically the Council is responsible for the election of members of other organs of the Euroregion. In addition, it adopts the statute and rules of procedure. Its competences include dealing with financial and budgetary matters. In most Euroregions the council acts asa representative of the association on the outside. It is also the body that accepts or rejects the proposals of resolutions. The Council also decides on the admission of new members. |
| | Presidium | It acts as the master executive body. The tasks of the presidium include the development and implementation of projects approved by the Council. In this way it gradually carries out the tasks set by the Council. It represents the Euroregion during breaks between Council meetings. In addition, it controls the course of work of the secretariat, deals with rights related to the use of its own funds and approves the material and financial plans. Often it also deals with the designation of minor implementing structures. |
| | Secretariat | It plays an administrative role. Takes care of office matters and organizes the work of other bodies. The Secretariat is responsible for preparing the relevant documents and reports to the Council and the Bureau. Its duties include organizing meetings, conferences or deliberations of the Council or the Presidency. Furthermore, it supervises the efficiency of the work within the working groups. Like other parts of the Euroregion structure it acts as a representative of the organization on the outside. |
| | Work groups (committees) | These are the lowest ranking execution and advisory units. They deal with various problems and issues on which cooperation within the Euroregion is based. Each group consists of experts and specialists in a given field. The task of these units is to prepare projects, assumptions of joint ventures. They carry out the recommendations of other bodies |

*Source: own elaboration basing on statutes of Polish Euroregions.*

The organized structure of the Euroregion and its operation together with the institutions allow for a:

– stronger than in a typical region emphasizing historical, cultural and social similarities;
– stronger and more conscious emphasis on identity;
– higher visibility of their organization, which is reflected among other in higher than in a typical region utilization rate of EU structural aid and its more deliberate use in the context of national development strategies.

These expressive qualities of the Euroregion (through its organization and institutions) cause that it determines its needs and interests independently, the implementation of which it effectively performs. There is also the German support of the Euroregions, since the Germans „instilled" on European soil this form of „small" integration, proving its usefulness and necessity in the context of cohesion of integrative grouping.

Achieving a level of cooperation within the Euroregion occurs gradually and there must be some conditions like first of all, the peripheral location on the border. Diagram of the approach to the Euroregion is shown in Figure 2.

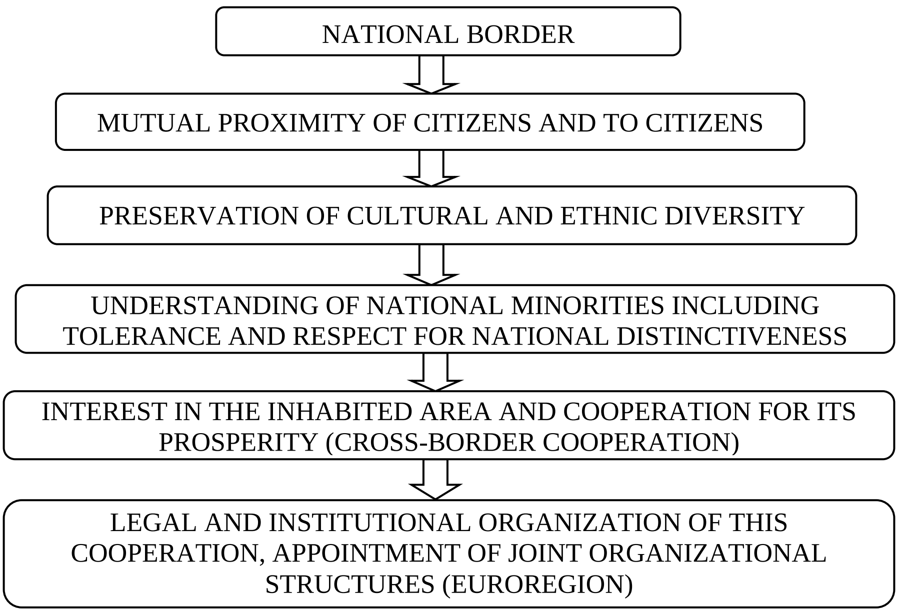


Fig. 2. Interdependence and road from cross-border cooperation to Euroregion
*Source: own elaboration*

The Euroregion is a higher stage cross-border cooperation, due to having a Council, the Presidium or thematic working groups (Table 2). Thematic working groups – they are also an identification of the main themes and priorities of cooperation that are likely to be rapidly implemented with cooperation from, among others, EU structural assistance. In professional obtaining of such aid take part also other Euroregional institutions.

In practice, cooperation in the Euroregion as an organized region results in more numerous national and international connections, the specific nature of creating relationships, influencing group integration (EU), the creation of experimental test grounds for understanding subsidiarity and partnership. The specificity of the functioning of the Euroregion makes it similar to a cluster (discussed in the next section of the study).

## 4. Euroregion as a natural cluster

When defining a cluster, most generally one can say that it is a geographical concentration of interdependent companies, which are a part of the so-called local network. Clusters reflect the accuracy and the tendency that the enterprise has a „bias” to focus in certain areas. Given the above and the fact that the Euroregion is created from the bottom up by the local community and is geographically concentrated in a given area – it is a special (already held) a place for the creation of interdependent companies. Clusters are the epitome of interdependent design, such a structure is also the Euroregion. Euroregions are the „interdependent ground” and thus already prepared for the „economic interdependence”, which is the basis of clusters. In economics operates such a term as regional cluster, and it can therefore be used in the context of a Euroregional cluster. The author of the definition, within the meaning of regional clusters is, among others, A.S. Rosenfeld, who included the two main criteria to define them, as shown in Table 3.

Table 3. The criteria for defining regional clusters

| **Criterion** | **Criterion description** |
|---|---|
| The criterion of territorial restriction | Regional clusters are limited geographical territories with a relatively large number of companies or employees acting only in several related sectors. This reflects the view that the economic, technological and entrepreneurial activity in specific industries tend to concentrate in certain areas. |
| Cluster as part of a local network | Businesses in regional clusters are to cooperate with enterprises or institutions operating in various locations, but they are primarily part of a local network, often in the form of production systems. These systems tend to cover subcontractors but they also mean horizontal cooperation, i.e. between companies which are in the same production phase. Using a common technology, training base or the same raw materials can connect the companies from the area. The size of the geographical area constituting a regional cluster depends on where the companies are located in the local production system. It often happens that the area of regional clusters coincides with the territory of local labor markets. |

*Source: own elaboration basing on: [4, p. 9 and further].*

These criteria can be used when defining Euroregional clusters, and the described here criterion of territorial limitation and local network are of particular importance due to the fact that the Euroregion is a so-called natural region of high intensity of „innate" and inherited features. The Euroregion is already a cluster by itself, while a region requires the creation of a regional cluster. Convergences and similarities of the Euroregion to a regional cluster can be traced to the convergence of the stages of creating of both of the structures. This comparison of a regional cluster and a Euroregion as a natural Euroregional cluster is contained in the table below (Table 4).

Table 4. Summary of stages of development for a regional and a Euroregional – called natural – cluster

| No. | **The steps for creating a regional cluster** | **The steps for creating a Euroregion – a natural Euroregional cluster** |
|---|---|---|
| 1 | **Birth of a cluster**<br>They refer to specific knowledge acquired in research and development institutions, the needs of customers, the location of enterprises implementing technological innovations that stimulate the growth of many other companies. The genesis of clusters can be analyzed tracing the history of the events that led to their mass appearance in recent years. This step leads to the development of new businesses, leading to a geographical concentration of businesses at almost the same stage of production. It is followed by the increased regional focus, which is an important stimulator of innovation and entrepreneurship [5, p. 197] | **Birth of the Euroregion** by reference to the tradition, historical conditions, the restoration of former unity of cross-border areas divided by different events and historical conflicts. This phase leads to renewal of cross-border ties, getting to know the socio-economic potential of areas. There is also increased regional focus, which is a stimulator of innovation and entrepreneurship |
| 2 | This is followed by shaping of a grouping of companies and is characterized by a build-up of positive externalities. They include initially the establishment of a network of specialized suppliers and service companies, as well as the creation of a specific labor market [6] These effects rely on lowering of collective costs and spendings, allowing for savings in the reduction of production costs to be used by both suppliers and recipients | The origins of creation and the formalization of cross-border cooperation also give rise to recognition of the area in terms of, among others, endogenous potential of enterprises to further expand networks. These actions result also in changes in the local labor market, cooperation between local entities across borders |
| 3 | It bases on the creation of organizations that will support the companies in the developing cluster. Those can be educational, training institutions, business organizations, etc., that support local collaboration, | Bases on the creation of an organization and making cross-border projects that will support, among others, companies in the developing Euroregion – a natural cluster. These institutions have an educational, training, business, etc. |

| | | |
|---|---|---|
| | learning and diffusion of knowledge, as well as the formation of specific knowledge among executives in local companies | character and support local Euroregional cooperation, learning and diffusion of knowledge, as well as generating knowledge specific to local companies |
| 4 | Positive externalities are growing and appear organizations that increase the prestige and attractiveness of the cluster. This leads to the acquisition of companies and skilled labor from neighboring areas, which further increases the attractiveness and creates a more favorable ground for the creation of new businesses | There is increasing positive effects inside and outside the Euroregion, measurable results emerge, as well as organizations increasing the prestige and attractiveness (e.g. AEBR). This leads to expansion of cooperation, acquisition and use of businesses and labor across borders, e.g. the Saar-Lour-Lux Euroregion and employment of the workforce in Luxembourg), as well as obtaining assistance funds, which creates more favorable ground for the development of the Euroregion |
| 5 | Creation of non-market relationships that foster the circulation of information and knowledge by way of, for example, informal cooperation and assistance in the coordination of economic activities; thus the mature regional cluster includes a team of specific, differentiated relations between individuals and organizations. Communication, which includes the flow of specific knowledge, requires more frequent interpersonal contacts, which are stimulated by the proximity of people, businesses and organizations [7]. | The Euroregion itself is by definition a formalized cross-border cooperation, but its maturation leads to a particular neighborhood coordination of economic activity and development of relations and communication. This social and knowledge element becomes important after the construction of the foundations of cooperation |
| 6 | The declining stage for clusters, although they may succeed for decades and co-create new clusters (sooner or later they enter the declining stage), because the regional socio-economic development can lock itself in its own socio-economic environment, which once was the basis of its strength. Clusters can fall into the trap of rigid specialization. Cluster development is sometimes characterized by implementation of old, tested practices and suppression of new ideas, which could pose a danger to the existence of clusters in the event of changes in the global economy [8, pp. 255-277]. | For Euroregions this stage refers to co-creation of new structures of this type in the vicinity of the non-euroregionalized municipalities. We rather do not encounter falls of Euroregions, because their development does not close in their own socio-economic environment that is recovering and there is no rigid specialization trap. The development of the Euroregion, being a part of the integration and promoting its development responds to the changes occurring in the global economy |

*Source: own elaboration using: [5, p. 197], [6], [7], [8, pp.255-277], [9, pp. 56-57].*

Similarities described herein are clear and significant, starting from birth of the cluster/Euroregion in which clearly dominate unity, community, tradition through the formalization of cooperation (steps 2 and 3 in the table) up to positive effects (steps 4 and 5). The main discrepancy concerns the final stage, in case of clusters we are talking about their decline, although they can stimulate and co-create new ones before they come out of sight, they may also fall into the specialization trap. With Euroregions, so far, the practice of their functioning did not show the end of the Euroregion. It can be assumed that the natural Euroregional cluster, because of its specificity is not subject to the regularities of the last stage (Table 4). One can also risk to say that in the context of the natural Euroregional cluster can operate regional clusters.

## 5. Conclusion

Referring to the title of the work, which hides its goal, should be emphasized that the Euroregion manages structural aid, which is a consequence of the functioning of EU regional policy. This is because it alone has an organized institutional structure, which makes the Euroregion itself organized, already prepared to act and take activities at the local level.

Above the Euroregion the organizational structure is „held" by the Association of European Border Regions (AEBR). Already due to this orientation of structural aid that goes with the guarantee of its effective and useful utilization.

Euroregions, specifying in their area some interdependence between economic activity and entities that are focused, are similar to clusters. At the same time clusters tend to be created if there are conditions for doing so. However, in the case of the Euroregion these conditions already are present. These dependencies, taking into account the management function, can be illustrated by the following diagram (Figure 3).

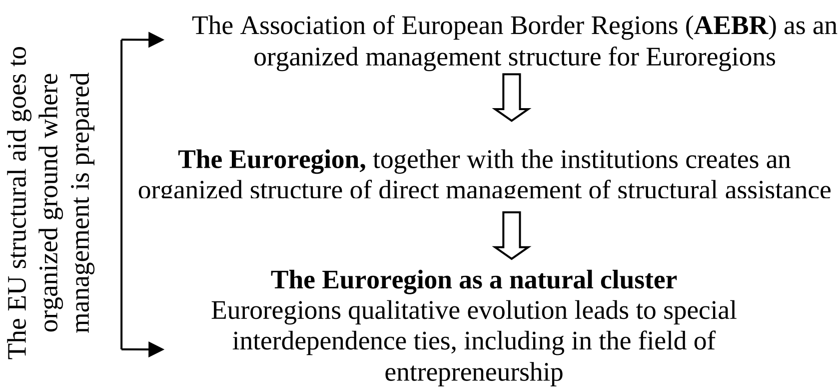


Fig. 3. Relationships, taking into account the management function of the Euroregion in structural aid.
*Source: own elaboration.*

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## EUROREGION W ROLI ZARZĄDZANIA POMOCĄ STRUKTURALNĄ ORAZ NATURALNEGO KLASTRA CITIES

### Streszczenie


Opracowanie dotyczy struktury organizacyjno-instytucjonalnej euroregionu. Jest ona wielopoziomowa i wpływa na funkcjonowanie euroregionów, w tym między innymi na zorganizowane podejście do wykorzystania pomocy strukturalnej w ramach polityki regionalnej Unii Europejskiej (UE). Poziomem najwyższym tej organizacji jest Stowarzyszenie Europejskich Regionów Granicznych (SERG), które lobbuje za euroregionami na forum UE oraz świadczy fachowe usługi w zakresie szeroko pojętych działań regionalnych. Z kolei sam euroregion jest również zorganizowany posiadając instytucje. To pozwala w sposób uporządkowany realizować zadania w wymiarze lokalnym, jednocześnie pokazując „inne" podejście do problematyki zarządzania, które może przybierać różne formy.