

# Circular Design and Consumer Involvement in Circular Economy<sup>1</sup>

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## Abstract

*The circular economy is an approach to help reduce global sustainability pressures. In circular economy it is important to involve design from the beginning of the product lifecycle, including product ideation and material selection. Involvement of consumers and users into circular economy is very important and enables change in purchase patterns and product utilization. The paper methodology consists of a profound literature review and analysis in area of circular economy, circular design and consumer or user influence on circularity. The goal of the paper is to provide insights into the consumer involvement into a circular economy and changes in users' behavior. The research results in discussion of design strategies to slow down "resource loops", to close "resource loops", and to "narrow material flow" to enhance circular economy and business models, as well as consumer involvement in circular economy. We outline desired consumer and user behavior leading to circular economy.*

## Key words

*Circular economy, circular design, consumer behaviour, behaviour change*

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## Introduction

Businesses and governmental organizations have to deal with negative effects of climate change and resource exhaustion due to human activity. Applying the principles of the circular economy in practice may substantially reduce sustainability issues. European Union included the principles of circular economy in its strategies. The European Commission focuses on strategies of recycling, repairing, reduction of material use, preventing loss of scarce material, applying new business models, and creating new work opportunities, which can help Europe in transition to "zero-waste" economy reducing environmental impacts (Bocken et al., 2016).

Bakker states that "the circular approach contrasts with the traditional linear business model of production of take-make-use-dispose and an industrial system largely reliant on fossil fuels, because the aim of the business shifts from generating profits from selling artifacts, to generating profits from the flow of materials and products over time" (Bakker et al., 2014). A circular economy represents a systemic way to economic

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growth with a shift of focus from selling products to much wider set of activities linked with product use, reuse, product repair and material regeneration which bring value to the businesses, to the consumers and the society, and to the environment.

For the linear economy the "take-make-waste model" is typical, which concentrates on rapid flow of activities in linear manner such as material excavation, production, product use and waste. In contrast to that, "a circular economy is *regenerative by design* and aims to gradually decouple growth from the consumption of finite resources" (Ellen Mac Arthur Foundation, 2020). Design and designing is very important for the circular economy as it can complement heavily to its principles: "design out waste and pollution", "keep products and materials in use" and "regenerate natural systems". *Circular design process* outlined by Ellen Mac Arthur Foundation comprises four steps:

1. Understanding the whole system including the user needs and behavior
2. Outlining the design challenge and designer aim
3. Make as many prototypes and versions as possible
4. Release the design, create loyalty with customers, deepen investment of stakeholders, create compelling story

Six strategies involving the principles of the circular economy into the design are the following:

1. Keeping the principles of "inner loops" design
2. Prioritizing services to products
3. Extending the product life
4. Choosing safe and circular materials
5. Dematerialization
6. Modularity.

Majority of products that we use today are designer for linear economy. If we want to apply the principles of circular economy, many products need to be redesigned with a much broader perspective of material flows. When we speak about material flow, we can take into consideration the two models. First, "*cradle-to-grave*" flow of materials which is typical for linear economy. Second, "*cradle-to-cradle*" flow, which is used in circular economy, and represents resource savings in circular models (Braungart et al., 2008). Stahel (2010), refers to "closed loop systems" and outlines two types of loops within a "closed loop system": (1) "Reuse of goods" and (2) "Recycling of materials".

Building on Stahel (2010), and Braungart et al. (2008), Bocken et al. (2016) and Moreno et al. (2016) four strategies concerning material flow are settled:

1. "*Slowing resource loops*: Through the design of long-life goods and product-life extension (i.e. service loops to extend a product's life, for instance through repair, re-manufacturing), the utilization period of products is extended and/or intensified, resulting in a slowdown of the flow of resources".

2. "*Closing resource loops*: Through recycling, the loop between post-use and production is closed, resulting in a circular flow of resources".

The first two approaches differ from the third approach as they can contribute to reduced resource consumption. The third strategy can in some cases contribute to rebound effect in consumption:

3. "*Resource efficiency or narrowing resource flows*, aimed at using fewer resources per product".

4. "*Whole systems design*: design for system change aimed at reducing environmental backpacks and designing regenerative systems".

It is important to involve design and designers in the very beginning of the product creation, mainly if it is done in multidisciplinary teams. Creating products and solutions for circular economy expects engaging consumers, users or prospective users and marketing experts in product creation process to be able to build on changing consumption patterns in line with societal needs.

Recent studies in several countries or regions (including the EU territory) point to the fact that, in general, around 55-60% of the innovations include environmental benefits, that contribute to sustainability and sustainable growth. This implies that eco-innovation is already an integral part of design and innovation activities both within and outside businesses (SBA, 2018).

## 1 Methodology

The research project methodology consists of a profound literature review and analysis in area of circular economy, circular design and consumer or user influence on circularity. Author studied and analyzed numerous sources from Web of knowledge, Web of science and Scopus, European Union strategic documents, studies by European Commission on consumer behavior linked to Circular Economy, Flash Eurobarometer 397 on perception of product safety and environmental claims' impact on purchasing decisions. The goal of the paper is to provide insights into the consumer involvement into a circular economy and changes in users' behavior.

We posed following research questions:

1. What are up-to-date "circular design strategies" and "circular business models"?
2. What is consumer engagement in circular economy and what are the driving factors?
3. What is the desired consumer behavior in circular economy?

## 2 Results and Discussion

In order to address the research questions we analyzed the institutional approach of European Union, and the literature on Circular Design, Circular Business Models and consumer behavior in Circular Economy.

In 2015, the European Union started to implement the package to enable the transition to circular economy. Three years after, the Circular economy action plan was completed. In 2016, employment in circular economy sectors increased by 6% compared to 2012. More than four million people were working in circular economy sectors. New

business models brought new circular solutions for domestic and foreign markets. "In 2016, circular activities such as repair, reuse or recycling generated almost €147 billion in value added while accounting for around €17.5 billion worth of investments". (European Commission, 2019)

In 2018, EU implemented "*EU Strategy for Plastics in a Circular Economy* as the first EU-wide policy framework adopting a material-specific lifecycle approach to integrate circular design, use, reuse and recycling activities into plastics value chains. Under the new plans, all plastic packaging on the EU market will be recyclable by 2030, the consumption of single-use plastics will be reduced and the intentional use of microplastics will be restricted" (European Commission, 2018 b).

To be able to fight with climate change and environmental degradation, European Union needed a new growth strategy. To overcome the environmental challenges, the new strategy that can make Europe resource-efficient and competitive economy was introduced.

The *European Green Deal*, introduced in December 2019, is "the roadmap for making the EU's economy sustainable. This will happen by turning climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive for all. Within the frameworks of the European Green Deal, the new *Circular Economy Action Plan* was introduced in March 2020" (European Commission, 2020). It presents new initiatives in order to modernize the European economy and take environmental issues as a priority. It is driven by the ambition to make sustainable products that last and to enable European citizens to take full part in the circular economy and benefit from the positive change that it brings. It is evident also from flash eurobarometer 397 that growing amount of waste is on the top three list of consumers' environmental concerns. Changing consumption patterns is inevitable.

## **2.1 Design strategies and business models for circularity**

In the following section we discuss several "circular design strategies" that help to reduce the speed of material flow during the product life cycle and to utilize the material in its full potential in different cycles. Further we outline business models which can be applied by companies to implement "circular design strategies" in business practices. The summary of the design strategies and business models is of course not exhaustive. Established business model that a company uses is difficult to abandon and to replace by a new one. Changing company behavior and acceptance of circular business models requires a lot of effort and understanding the benefits for a company, for consumers and for the whole society. Design strategies and business models for circularity (tab. 1) are adapted from Bocken et al. (2016), Moreno et al. (2016), Wastling et al. (2018) and Ellen MacArthur Foundation (2020). Authors in their works discuss the design strategies and business models in more detail.

**Tab. 1** Design strategies and Business models for circularity

Design strategies to reduce the speed of material flow during product life cycle <b>"Slow down loops"</b>	Design strategies to utilize the material in its full potential in cycles <b>"Close down loops"</b>	<b>Business models</b>
Designing products with long product life	• Designing for full recyclability of material	Access and performance model
• Designing reliable and durable products	• Designing within a biological cycle	Extending product value
• Designing products for relationships and trust	• Designing disassembled and reassembled products	Classic long life model and encourage sufficiency
Designing product-life extension		Extending resource value
• Designing repairable products with easy maintenance		Industrial symbiosis
• Designing upgradable and adaptable products		
Designing compatible and standardized products		
Designing disassembled and reassembled products		

Source: adapted from Bocken et al. (2016), Moreno et al. (2016), Wastling et al. (2018) and Ellen MacArthur Foundation (2020)

Circular design strategies and business models can serve businesses as a source in a search of their own circular approach to business. "*Slowing down loops*" means creating products with *long product life*, using long-lasting consumer relationships with products based on emotional attainment and trust, creating products that are durable because of quality material, creating products that are reliable and work without failures or creating products that can be *expanded and modified in future* by design and allow upgradable and adaptable solutions in time. Standardization allows compatibility with other products, while reassembly and disassembly makes the material to be used to its full potential.

"*Closing down loops*" means using and reusing the materials in cycles. Based on Ayres (1994), there are only "two possible long-term possibilities for waste materials: either recycling and reuse, or dissipative loss (e.g. lubricants or detergents). Two distinct strategies for product design were developed: dissipative losses are to be made compatible with biological systems, fit for the "biological cycle"; whereas other materials are to be completely recycled, fitting a "technological cycle." Products that mix materials of both cycles and thereby inhibit the recovery of the materials".

*Business models* propose approaches to enhance circularity in product strategies (Bocken, 2016):

- The “access and performance model” proposes services instead of the ownership of product to satisfy consumer’s needs.
- “Extending product value” proposes recovery of product after it stopped functioning without the need of the new material.
- The “classic long life model” proposes long durability and reparability interconnected with high product quality and high level of service.
- The “encourage sufficiency” represents a “non-consumerist approach to sales”. It builds on good user relationship to product and low level of mental obsolescence.
- “Extending resource value” is about the collection or using materials that would be wasted to bring new value.
- “Industrial symbiosis” proposes using the waste material of one process as an input material to another process or product line.

## 2.2 Consumer involvement in circular economy

Consumer behavior can have an influence over applied design strategies. Wastling et al. (2018) state that “product lifetime depend as much on *human factors* as on *functional product durability*. If the products are not in property of users, they treat them with less care, in some cases leading to higher environmental impacts”. Consumers also prevent “closing down resource loops” when they do not use the products frequently and keep them stored in the cellars for long time avoiding recycling.

Bakker et al. (2014), assume “the principles of the linear model of production as designing something, manufacturing it as the lowest possible cost, selling it at the highest possible price and forgetting about it as soon as possible”.

When we speak about circular economy, the principles of production change. They involve circular material selection, and the interest is given also to other stages of product life such as product use (whether in user ownership or service), re-use, disassembling, reassembling and recycling. Consumer and user behavior in B2C models heavily influences the process of value creation and material flow (Wastling et al., 2018).

We were analyzing the results of “Behavioral Study on Consumers’ Engagement in the Circular Economy”, (European Commission 2018 a). We can conclude that consumers express their willingness to be involved in circular economy activities. 64% of respondents used to repair their products in the past, 36% did not do it. Majority of respondents (~90%) have no experience with renting products or buying second hand products, which represents rather low involvement in circular economy activities. Low involvement can be explained by missing information on “*product durability and reparability*” and underdeveloped markets for second hand products, renting or sharing services.

From the study *it is evident that providing information on durability and reparability* can heavily influence consumer decision towards products with greater durability and reparability. From the survey it is also evident that the consumers go for easier solutions.

If the repair requires lot of effort, consumers do not go for it and they prioritize trash the product. There is a big opportunity to shift consumer behavior *towards actual involvement in circular economy activities* by making repair services more available.

93% of respondents declare that they keep their products for long time, 78% re-cycle/sell/give away products they do not want, and 64% repair broken products. Such consumer behavior does not indicate the presence of the "throwaway culture". Just a minority of respondents, (from 10 to 25%) wanted to lease or rent the products instead of buying them. The consumers who expressed the will to participate in circular economy also expressed the will to repair the products and buy from second hand.

*"Durability and reparability"* was much more important in case of rather expensive products such as home appliances and consumer electronics, and less important for trendy stuff such as apparel and smartphones. Consumers expressed their will to purchase fashion products (apparel and smartphones) in second hand stores or use renting/leasing services.

It is evident that durability which is linked with product quality is more important for consumers than reparability which is linked with spare parts availability.

*"Price-quality ratio is the most important driver and simultaneously barrier* for consumer engagement in the circular economy, *followed by convenience"*. Low prices attracted consumers who were interested in product durability and reparability to switch their decision in favor to low-priced product neglecting circularity. If it is easier to buy a new product and replace the old one, consumers do not go for repair, mainly in case of fashion products and technology/trends driven consumers.

### **Perception of the safety of non-food products and impact of environmental claims on purchasing decisions**

Further we analyzed flash eurobarometer 397 (European Commission, 2015) and synthesized the insights on perception of the safety of non-food products and impact of environmental claims on purchasing decisions.

Increasing number of consumers (55%) think that *some non-food products* on the market are not safe. Increasing number of consumers (25%) also think that many non-food products on the market are not safe. Quite small and decreasing number of consumers (only 14%) think that all the products are safe which represents a decline in *consumer confidence*. Only 54% of respondents believe that "most environmental claims about goods and services in their country are reliable". In spite of that 55% of respondents agree that "environmental impact influenced their choice of products or services last week:

- 17% say all or most of their purchases were influenced,
- 29% say some were influenced and,
- 9% say only one or two purchases were influenced".

Respondents state that their shopping choices were influenced by environmental factors much more often than in 2012 (+14%). We can conclude that environmental

issues impact purchase decisions with rising trend and environmental claims gain growing importance.

### **Sustainability related information and consumer behavior**

Luchs, Brower, and Chitturi (2012) in their study investigated how information on environmental impacts and sustainability influences consumer decision in purchase process. They found out, that consumers prioritize products with high level functionality over the products with high level of sustainability features. If the product reached minimum accepted level of functionality, "*superior aesthetic design*" was a decisive factor that shifted consumer decision towards "*sustainability-advantaged*" products and drove confidence.

Wang and Wu (2016) analyzed influence of emotions to purchase behavior when shopping for household appliances. They found out that "*Pride, guilt, and respect* have positive impacts on purchasing energy conserving household appliances and resisting non-energy conserving household appliances". They also found out that *negative emotion - anger* can have stronger influence on the decision to buy sustainable product than positive emotion. It is important to highlight that emotions such as "pride" and "anger" could be actively used to promote sustainable products.

Maccioni, Borgianni, and Basso (2019) studied *value perception of green products*. Consumers who value sustainability, assign high value to green products which required effort searching for information – they attributed high value to "the creative solutions still believed of high quality". On the other side, non-green products receive higher value as they are often perceived as reliable and high performance.

### **Conclusion**

The goal of the paper was to provide insights into the consumer involvement into a circular economy and changes in users' behavior. We surveyed up-to-date circular design strategies and circular business models and identified consumer engagement in circular economy.

From the research studies that we analyzed, desired consumer and user behavior can be specified to help circular business models function and encourage creating products with circular design. Desired consumer behavior may differ based on product ownership model (owned by user or by service provider).

If the product ownership is with the user it is important that the users *do not forget about the products they own*, it is important that the consumers *value the products* they have. Unused products are often overlooked by consumers and do not contribute to circular economy by *repurchase* or *sending unused product back to the producer*. If we want to slow down consumption it is necessary to *increase the use phase* of products and establish the *relationship between consumer and producer* which is important for *enhancing proper use, product care, reliability and durability of product*. Direct contact with manufacturer also provides proper after sales service. Users may need to have



*maintaining behaviors*, cleaning products and keeping them running in their top form. *Self-repair* in case of simpler products also helps to prolong product life.

If the product ownership is with the provider, access to the product and product performance is important to the user. In this case, desired user behavior is linked with *keeping to the contractual obligations* (e.g. monthly paying), *using the product in the intended way*, not to break a product or *misuse* the product, *acceptance by the community of users by good product care*, *return in good condition*, some providers require users to *swap broken parts* - return parts which break and send them proper parts, specific care – e.g. not to overcharge batteries, get involved in picking up products and returning it to a local pick up point which is *reducing operational cost*.

Encouraging desired behavior is possible through training, education, persuasion, financial incentives or providing value, making it as convenient as possible to get things out of the house (to second hand store better as to the separated trash for recycling), returning old stuff to the producer without obstacles, building trust and attachment (to product, service or manufacturer depending on the business mode).

This paper tried to answer the question of consumer involvement in a circular economy and changes in users' behavior. Of course, it does not provide a complete answer, but it provides a base for further discussion in area of circular design and circular user behavior. Future research may focus on the ways to enhance the circular behavior and acceptance of circular products and creation of appropriate business models.

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# Extent of data utilization within digital marketing processes<sup>1</sup>

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## Abstract

*Data is currently the most valuable source in decision making process within digital marketing firms. The main aim of the article is to examine extension of data utilization within digital marketing processes. Research of the main aim was supported by two sub-goals, which focused on knowledge level of marketers' data based approaches and on areas, in which are such approaches applicable. Quantitative research in form of questionnaire was utilized as a primary research method. Findings of the paper points to sufficient awareness about big data and artificial intelligence tools and uncover currently untapped potential of its implementation into digital marketing processes.*

## Key words

*artificial intelligence, big data, data, digital marketing*

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## Introduction

Information age and technologically advanced approaches shaped current digital marketing environment into sophisticated databased industry. Marketing analyses and advanced analytical tools significantly help to extent scope of use of the information in business. Amount of data generated in everyday business activities can positively influence business decision making process and lead to more profits. However, it is necessary to know how data is utilized and how to mine the most of them. Big data, machine learning and artificial intelligence are already well rooted terms and firms direct a significant focus on them.

## Data collection and procession

In the age of information it is necessary to collect and process data for effective business decision making process. Generated data are often unstructured and firms or individuals are not able to mine maximum from data. Thus, they deprive themselves of the possibility of future data based development (Balducci & Marinova, 2018). The problem is with data size. Very current is term big data. Hou, Guo and Guo (2015) describe big data as a new oil, which has potential to transform a society. Uncovering the hidden patterns and correlations between massive amount of data represents important source of information. Due to Chena and Lina (2014) big data brings big opportunities and

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transformation potential for different market segments. It also represents challenge for mining, procession and utilization in favor of marketers (Guarda et al., 2018). Davenport and Patil (2012) stated, that firms are currently challenged by great inflow of information and it leads to creation of new working positions. The main goal of employees on these positions is to uncover hidden stories within the bundle of data and interpret them into understandable form. The big data is modern term and it covers wide scale of concepts, from technological ability to store, accumulate and manage data to shift in culture, which penetrates into business and supply the society by great amount of information.

## Artificial intelligence

Positive impact of data on a business is undeniable. The biggest problem is data collection and procession. Manual approach to the activity is due to amount of data generating from business activities impossible (Kietzmann & Pitt, 2020). Fortunately, there are software available, which can data collect and process instead of humans. An employee or entrepreneur takes a role of a coordinator, who manages software processes (T. Davenport, Guha, Grewal, & Bressgott, 2020). However, amount of data, we are dealing with today, is too big for regular software. There was a need to develop software running on powerful hardware which can learn from previous findings generated from data collection and subsequent procession. Machine learning and closely connected artificial intelligence are terms very relevant to the topic. Due to Curry and Moutin (1991) artificial intelligence application into processes of digital marketing are eligible mainly from strategic point of view. Artificial intelligence is on a basis of extensive data procession able to generate information, which is necessary in decision making process within a marketing strategy. Application of artificial intelligence into digital marketing brings new opportunities and possibilities, which have to be taken into account before implementation. As well as all other marketing and business approaches, artificial intelligence has advantages and disadvantages. Brief table summarizes them (Tab. 1).

**Tab. 1** Advantages and disadvantages of artificial intelligence in a business

<b>Advantages</b>	<b>Disadvantages</b>
Breaks abstention	High expenses
Hundred percent performance	Abstention of moral and ethical principles
Almost instant decision making process	Abstention of creativity
Automation of banal activities	Impact on increased unemployment (Reddy, 2017)
Error rate reduction	Consumer preferences
Digital assistance	Dependence on human interventions
Research in areas inaccessible for human	Algorithms error probability (Kniahynckyy, 2017)

Source: author's research based on literature stated in the table

Both, advantages and disadvantages are obvious. Mentioned entries serve as general overview. Every company has its specifics and must consider own advantages and disadvantages of the artificial intelligence establishment into processes.

## Example of practical utilization of artificial intelligence

Software based on advanced data procession or artificial intelligence were very difficult to develop in the past. The process was very time and finance consuming. It was necessary to involve tens of engineers, technical architects etc. However, technological progress and current digital possibilities developed platforms, via which it is possible to create and implement artificial intelligence and machine learning systems into software with minimal need of technical know-how. For instance, TensorFlow by Google. It is free accessible software with open source code, which can serve for complex mathematical and statistical computing, which are able to be "translated" into visual form as graphs for example. The software was initially developed for engineers, who work on a research of machine learning and deep learning methods. However, subsequently employees found out, that the software is too wide and universal to be usable also in other market segments. TensorFlow is accessible for two years already and is utilized by resonant companies such as Coca-Cola, Ebay, Dropbox, Uber Nvidia, Airbnb and a lot of others. "TensorFlow is accessible, easy to use system in intuitive environment, which supports work with programming languages such as Python or R. It allows marketing specialists and research workers to mine maximum from the program without a need to develop a new financially demanding system" (Wirth, 2018).

### 1 Methodology

Technological progress is perceptible in most of the current modern companies. And especially companies operating in digital and internet area. The areas are overwhelmed with data, which helps to drive more sales, develop more successful strategic decisions etc.

The main aim of this article is to examine in what extension digital marketers utilize data in their digital marketing strategies. Tow sub-goals were set to fulfill the main goal:

1. examination of knowledge level about data processes within a company of respondent,
2. identification of areas within the company, where data utilization is usable.

The main research method of the paper was quantitative research conducted in Google forms online software. The questionnaire was delivered to preferred target groups via several channels. As far as demanded respondents were marketers with specialization in digital marketing, the following internet platforms were utilized:

3. IAB Slovakia direct mail database – IAB is a self-regulating institution covering digital areas on selected markets. The firm operating on the Slovak market has a database of 163 e-mail addresses of employees or entrepreneurs in the digital marketing areas. The questionnaire was a part of one of the regular weekly newsletters.
4. Marketing Facebook profile post – there was an agreement with a particular Facebook group called Digital Blog. At time of the research it had 1867 fans and they agreed to create a post with a request to fans to fulfill the questionnaire.

5. Facebook post on personal account – local marketer with 1388 friends at time of the research agreed to share the questionnaire on his personal account.
6. Facebook post in a thematic marketing group – Facebook disposes with several groups dedicated to marketing and relevant topics. The biggest group on the market is Marketers, copywriters and SEO optimizations. The group had 13846 followers at time of the research.

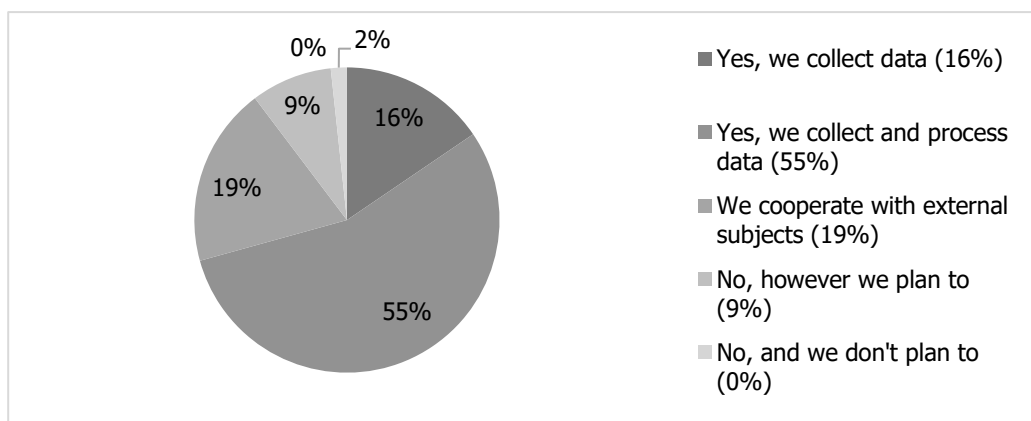
The most questionnaire answers were collected from the fourth utilized channel. The fact is caused by the largest fan base. A total number of answers was 58. The whole questionnaire contained 15 questions. Due to extensive research this article is a part of the series of several articles which process all researched information. This paper processes four researched questions, which can be considered as one thematic bundle with related questions.

## 2 Results and discussion

Previously conducted researches uncovered that marketing specialists consider marketing more as a science than an art. The statement is caused by increasing amount of data, which enter the marketing process and help with initial set up, continual optimization and final evaluation of marketing and advertisement campaigns. Marketers realize that modern marketing is more technical than ever before. The consciousness about the technical part of the current marketing is however not enough. The question is, whether marketers utilize data within marketing processes and if they have enough space, opportunities and tools to utilize the data.

First processed question within quantitative research examined in what extent marketers works with data, whether they collect and process them and if the data work is covered by internal sources of the firm or is outsourced to the third party subjects (Graph 1).

**Graph 1** Extension of data work within the company of respondent

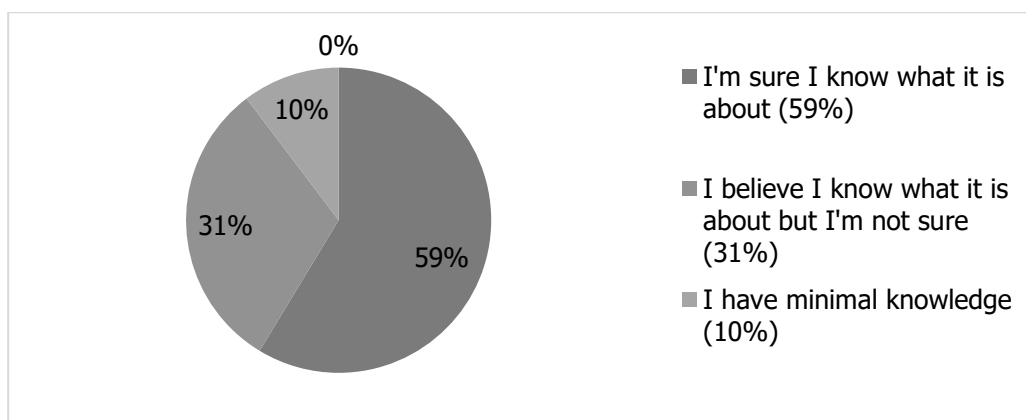


Source: author's research

Marketers current orientation on data is obvious. Most of the respondents (55%) confirmed that the firm they work in collects and processes the data internally. The

result is quite striking because of limited possibilities of the Slovak market, which disposes only with limited population. Collection and procession of limited amount of data is often more time and finance consuming than in case of big amount of data. 19% of respondents stated, that they collect data internally, however procession is outsourced to specialized firm. 16% of respondents collect the data internally, however don't process them at all. 9% of respondents who currently don't collect the data plan to do so in the future. 2% of respondents stated, that they don't have knowledge about the problematics. None of the respondents selected answer "No, and we don't plan to". The important finding from this question is, that 90% of respondents work with data in some way. For the data work it is necessary to utilize analysis and analytical tools, which have potential to simplify and accelerate collection and procession of the data (Agrawal, 2014). Collected answers correspond with the statement, that marketers consider marketing more as science than art.

**Graph 2** Awareness about a term artificial intelligence

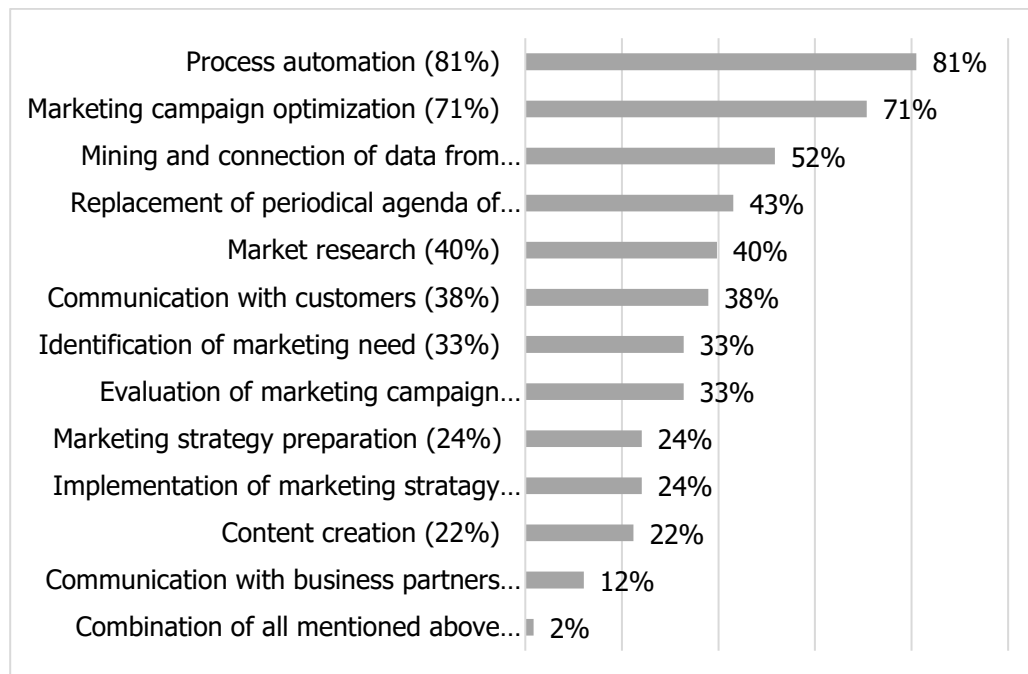


Source: author's research

Due to present findings most of the marketers work with the data. Advanced technological possibilities and connection with marketing analyses and analytical tools caused, that softwares with elements of artificial intelligence are getting more and more attention. Utilization of such tools has a big potential in the digital marketing area. Especially in systematization and automation of processes. On base of previous research question, which confirmed work with the data in case of most of the respondents, there is an assumption, that most of them will be well informed also in an the area of advanced analytical tools and artificial intelligence, which works with big data. The next research question examined how respondents perceive a term artificial intelligence and whether they have knowledge in the area (Graph 2). More than a half on respondents (59%) stated, that in case of artificial intelligence, they know what it is about and that they are sure what the term means. 31% of respondents declared that they know what artificial intelligence is, however they are not sure. Only 10% of respondents declared that they have a minimum know-how in the area. The answer "I don't know what I should imagine" had no answers. Thus, respondents have good or at least elementary knowledge in the area of artificial intelligence. It is possible to suppose, that marketers are oriented

in the problematics of advanced analytical tools and in area of big data, which has ability to bring new market information important in a process of strategic planning.

**Graph 3** Identification of marketing areas currently suitable for artificial intelligence

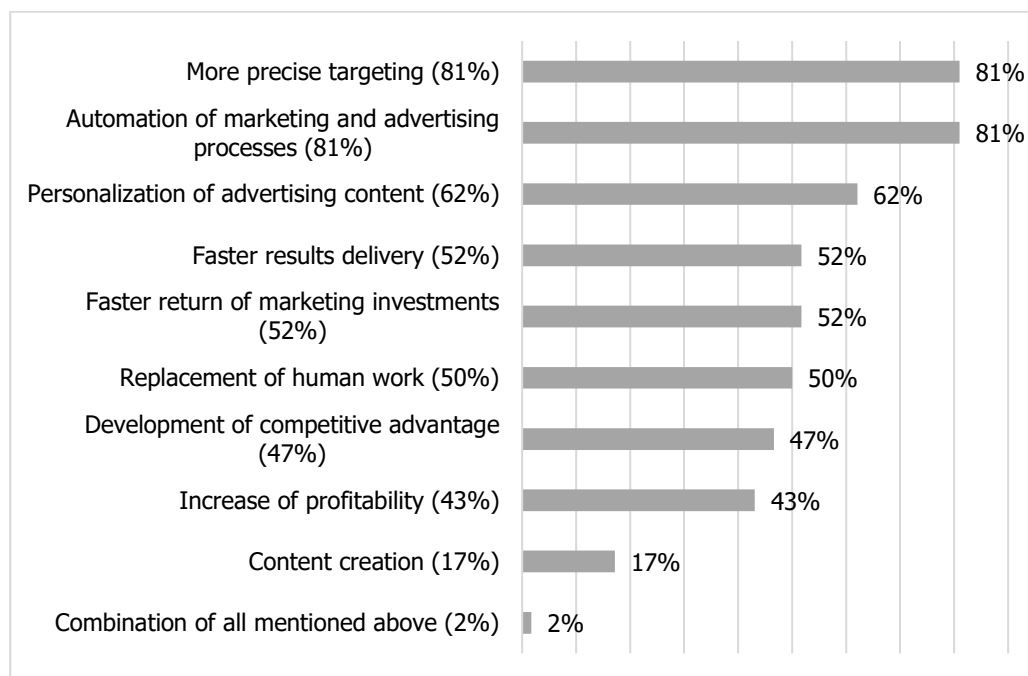


Source: author's research

The main aim of the question was to identify areas, where respondents feel a potential for artificial intelligence utilization. Respondent could mark several options at once (Graph 3). From the collected answers it is obvious that the biggest potential for artificial intelligence is, due to respondents, in the area of processes automation (81%), in optimization of marketing campaigns (71%) and in gaining and connection of several analytical tools (52%). First three most successful activities were occupied by periodical activities and their operation demands considerable amount of data. The manual procession of the data would request quite large time and finance investment. Implementation of artificial intelligence into the processes would lower costs on manpower and would systematize regular marketing activities of firms. Interesting finding is, that also activities, which request relatively individual approach and certain amount of creativity gained a large number of votes. For example option "market research" gained 40% and communication with customers 38%. That means, that marketers believe in usefulness of the artificial intelligence also into processes, where is higher pressure for inputs of individuals. One of the respondents stated in option "others", that he believes that it is possible to apply artificial intelligence into all mentioned processes.



**Graph 4** Areas of digital marketing currently suitable for artificial intelligence implementation



Source: author's research

The last question processed in this article researched in what areas is artificial intelligence able to help companies today (Graph 4). The respondents could mark more answers at once. The most of the respondents agreed, that artificial intelligence is able to secure automation of marketing and advertisement activities (81%), more precise targeting (81%) and personalization of content and websites (62%). Approximately 50% of respondents marked also options: faster results delivery, faster return of marketing investments (ROMI), gaining of competition advantage and replacement of manpower. Options "content creation" marked only 17% of respondents. One of the respondents stated in option "others" that artificial intelligence is possible to apply into all areas mentioned in questions. The question and its answers confirm that respondents predict future of artificial intelligence in processes which operate on base of large amount of data. Content creation demands large input of human creativity, that's why respondents in this area don't see potential for artificial intelligence.

## Conclusion

Marketing analyses, analytical tools and related artificial intelligence implemented into digital marketing processes are due to findings of the paper firmly established on the Slovak market at least in theoretical point of view. Respondents of quantitative research confirmed data utilization in digital marketing processes within companies they work in. 90% of respondents utilize (in some way) data generated from business they

focus on and 55% of respondents declared they are able to full-service collect, process, manage and utilize the data within the firm. Due to current amount of data generated from the business it is impossible to manage data manually. Thus, it is necessary to use support of software. Currently, there is a possibility to utilize artificial intelligence tools, which are dependent on humans only during initial set-up. They are able to manage rest of the data management process automatically and search for hidden patterns in the data on base of previous findings. In other words, they are able to learn from history and use the knowledge in further processes. 90% of respondents had at least minimum knowledge about artificial intelligence and its possibilities. The most significant areas for utilization of artificial intelligence they see process automation, marketing campaign optimization and connection of data from various sources. They expect from utilization of artificial intelligence more precise targeting, automation of marketing and advertising activities and personalization of developed content.

The findings of the research uncovered, that marketers on the Slovak market frequently work with big data, have knowledge about possibilities of artificial intelligence and believe in future of such a digital marketing approach. On base of collected answers there is justifiable assumption that marketers will rely on artificial intelligence tools and big data approaches more in the near future.

Recommendation for the market is to extent knowledge in the area before implementation of such tools, utilize human sources with a sufficient know-how in the area and thoroughly calculate return on investment, since costs on artificially intelligent based tools are currently still very finance demanding.

Further research can focus on specific big data and artificial intelligence tools currently utilized in the digital marketing area and to identify specific needs of the market on such tools.

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# Performing The Activities Of The Commercial Investment Advisor In Austria And Of The Financial Advisor in Slovakia

Andrea Slezáková<sup>1</sup>

## Abstract

*Financial advisory means providing advice concerning various financial products such as loans, insurance and investments. The commercial investment advisor and the financial advisor develop individual analyses and concepts for their clients, in the sense of a comprehensive financial planning, about the type, construction, protection, maintenance, retention and possible uses of assets and financing. They respond to the special needs of their customers. Despite these common elements, there exist important distinctions in the regulation of the commercial investment advisor in Austria and of the financial advisor in Slovakia.*

## Keywords

*commercial investment advisor, financial advisor, trade license, single license*

**JEL Classification codes:** K2, K22

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## Introduction

The financial market can be defined as a system of relationships, instruments, entities and institutions enabling the collection, concentration and distribution of temporarily available funds on the basis of supply and demand (Bakeš et al., 2012). The financial market can be also defined as a place where the supply of free funds in the form of savings of various economic entities meets the demand of various economic entities for these funds, which are being used for investment (Chovancová et al., 2006).

The financial market offers various products, tools and services. These are characterized by complexity and impose requirements on the knowledge of clients. Therefore, in practice, more and more natural and legal persons are using the service of commercial investment advisors and financial advisors in order to obtain information, recommendations and professional assistance in choosing the appropriate financial service. In Austria, commercial investment advisory relates to financial matters and the mediation of various financial products such as loans, insurance and investments. Commercial investment advisors work out individual analyzes and concepts for their clients. In Slovakia, financial advisory is mainly providing expert assistance, recommendations and personal financial plans related to one or more financial products. The paper deals with common elements and differences in the regulation of the commercial investment advisor and financial advisor. On the basis of comparative analysis the paper provides a proposal for the improving of the Slovak legislation.

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## 1 Literature review

The activity of the commercial investment advisor involves partially the rules of administrative law. Administrative law regulates a part of the social relations in the part of public administration, namely those that arise between administrators acting through public authorities and natural persons, administrators acting through public authorities and legal entities and those arising between administrators and public authorities acting on their behalf (Vrabko et al., 2012). Administrative law is a set of public-law rules that govern the organization and the activity of public administration, including the behavior of persons in its performance (Machajová et al., 2009). Administrative law is a set of legal rules regulating the position, organization and competence of public administration (Košíčiarová, 2015).

The most basic division of administrative law is its division into the part of administrative substantive law and administrative procedural law and the general part of administrative law and a special part of administrative law (Cepek et al., 2018). Commercial investment advisory mainly includes rules of the special part of administrative law, including the area of trade licensing. There exists the right to freedom of earning activity anchored in fundamental rights, but it is subject to a legal reservation (Frölichsthal et al., 1998). The trade regulations apply to all commercial activities that are not prohibited by law (Grabler et al., 2011). The Gewerbeordnung, GewO 1994, BGBl. Nr. 194/ 1994 (hereinafter "Trade Licensing Act") builds a substantial part of public economic law and, despite many exceptions, covers the majority of the commercial economy (Diregger et al., 2010).

In Austria, the Trade Licensing Act distinguishes in terms of the prerequisites for obtaining a trade license: regulated trades, partial trades and free trades (Aigner et al., 2017). According to Article 94 of the Trade Licensing Act, the performance of the activity of a commercial investment advisor is a regulated trade. Anyone who wishes to pursue this trade must file the trade registration in the district administrative authority of the location.

The activity of the financial advisor is being regulated by the rules of the financial market law. The financial market law can be defined as a set of legal rules governing the conditions for carrying out the activities of financial intermediaries, financial instruments, the protection of the consumer to whom financial market services are provided, regulation and supervision of the financial market (Sidak et al., 2014). The financial market law is a set of legal regulations governing relations regarding the authorization of entities' entry into the financial market and the conditions for carrying out their activities, financial market instruments, securities management, including their legal records, trading of financial instruments and related information obligations of issuers and other persons, financial consumer protection, regulation and supervision of the financial market (Čunderlík et al., 2017). The determining features of relations arising under financial market law and distinguishing it from other legal relationships are:

- the object of financial market law relations is money, respectively relations arising in connection with it,
- the content of financial market law relations is built by the rights and obligations of the entities established by law or by their agreement, the content of these relationships is being property

related, arising from the application of monetary relations (Babčák et al., 2017).

On the basis of a contractual relationship for his client, the financial advisor analyzes the financial market and searches for the most suitable product and is obliged to proceed objectively (Sidak et al., 2014).

In Slovakia, the financial advisor must obtain a license to perform the activities of a financial advisor, from the National Bank of Slovakia. Financial advisory can only be provided on the basis of a written contract concluded between the financial advisor and the client (Kubincová & Leitnerová, 2015). In financial advisory, the fee for the providing of this service is paid directly to the financial advisor by the client (Čunderlík et al., 2017).

## **2 Methodology**

In order to compare the Austrian and Slovak legal order the comparison method will be used. Comparison assumes that the objects of comparison will be placed in relation to each other by reference to the question under investigation (Kischel, 2019). An important part of the legal comparative activity is the individual comparison also called micro - comparison which deals with special legal rules and legal institutes (Kischel, 2015). The legal rules regulating commercial investment advisory in Austria and the financial advisory in Slovakia will be compared.

The rules anchoring the providing of the services of the commercial investment advisor and of the financial advisor will be analyzed. The analysis makes it possible to divide the research into individual parts, which become the subject of further research.

While comparing selected legal rules from the legal order of Austria and Slovakia, the methods of induction and deduction will be used. Induction makes it possible to derive general conclusions from empirical material on the basis of knowledge of particularities. It is a process from individual to general (from individual facts to general statements) and thus generalizations. Induction is a thought process where more general knowledge is logically derived from a more specific knowledge (i.e., individual is derived from the general knowledge). Induction leads to theoretical generalizations based on the examination of individual phenomena from practice; on the contrary, the theoretical conclusions are verified by deduction in practice (Gonda, 2012).

## **3 Results and discussion**

The legislation of commercial investment advisory in Austria and financial advisory in Slovakia, can be defined a set of standards that have a regulatory function. In principle the regulation of the activities of the commercial investment advisor and of the financial advisor is represented by a group of mandatory rules. The application of these mandatory rules cannot be excluded. The only exemption is when the law is expressly permitting it.

The public-law aspect of performance of commercial investment advisory and financial advisory services is manifested in relation to these service providers, particularly

by the requirements and obligations imposed upon them and by the creation of derogations from the general business law.

### **3.1 Scope of the activity of the commercial investment advisor**

The currently valid regulatory frame enables the commercial investment advisor to perform advisory and mediation. According to Article 136a Paragraph 1 of the Trade Licensing Act the activities of a commercial investment advisor are defined when it comes to advising and encompasses any advice that is related to building, securing and maintaining assets and financing. The only exception to this is the advice on financial instruments defined by Article 3 Paragraph 2 of the Wertpapieraufsichtsgesetz, WAG 2018, BGBl. I Nr. 107/2017 (hereinafter "WAG 2018"). That is subject to licensing under the WAG 2018. These financial instruments include consistently with Article 1 WAG 2018 stocks, bonds, investment and real estate funds, money market instruments and commodity derivatives. To be able to provide consulting on financial instruments, a license as an investment firm must be granted or the provision of investment services is performed in the name and on behalf of a legal entity (investment firm, investment service company, credit institution).

According to Article 136a Paragraph 1 of the Trade Licensing Act, mediation covers

- investments, with the exception of financial instruments,
- Personal loans and mortgage loans (presenting, offering and other preparatory work on loan contracts and their conclusion for the lender) and
- Life and accident insurance.

The scope of activity of the commercial investment advisor is partly overlapping with some other trade licenses, mainly: business consulting (Article 136 of the Trade Licensing Act), real estate trustee (Article 117 of the Trade Licensing Act), securities broker (Article 136b of the Trade Licensing Act), intermediaries of insurance (Article 137 of the Trade Licensing Act).

### **3.2 Forms of the activity of the commercial investment advisor**

From the regulation it is clear that the commercial investment advisor can have different forms. Firstly, it is the commercial investment advisor (according to Article 136a Paragraph 1 of the Trade Licensing Act), secondly the commercial investment advisor as a securities broker (in accordance with Article 136a Paragraph 3 of the Trade Licensing Act in conjunction with Article 1 Number 45 WAG 2018) and thirdly the commercial investment advisor as a tied agent (in accordance with Article 136a Paragraph 8 of the Trade Licensing Act in conjunction with Article 1 Number 44 WAG 2018). Further, on the activity of the securities broker and the tied agent is being focused.

## Securities broker

The securities broker is a regulated business. The entry in the Austrian business information system is constitutive for the activity of brokering securities (Paliege – Barfuß, 2017). The securities broker must pass a proficiency test, demonstrate regular training and may work for a maximum of three investment firms or investment service companies (Brandl et al., 2018). The respective investment firm or investment service company is in any event liable for the fault of the securities broker, whom it uses to provide the investment services, regardless of whether the securities broker discloses the respective investment firm/investment service company or not.

The scope of the use of securities brokers is limited to advice and brokering in relation to transferable financial instruments and certain fund units. Investment firms or investment service companies are required to monitor the activities of the securities brokers who work for them. These entities must ensure that the securities broker, when contacting the client or before entering into transactions with the client, tells the client what he is doing and what firm or company he represents.

In Austria, investment firms or investment service companies may only use investment brokers who are entered in a public register which is kept by the Financial Market Authority (a public authority supervising banking, insurance, capital market and pension savings). The register must be updated continuously. Investment firms or investment service companies must register the securities brokers immediately and are responsible for ensuring that they are properly checked. Working as a securities broker does not constitute an employment relationship within the meaning of federal labor, social or tax law provisions.

Commercial investment advisors who act as securities brokers are not authorized to act as tied agents.

## Tied agent

According to Article 1 Number 44 of the WAG 2018 a tied agent is any natural or legal person who, as a vicarious agent or otherwise under complete and unconditional liability of a single investment firm, a single investment services company or a single credit institution, performs investment services or ancillary services, accepts and transmits orders from customers via investment services or financial instruments, places financial instruments or provides the service of investment advice.

Tied agent is based on the transposition of Article 4 Paragraph 1 Number 29 of the MiFID II - directive which stipulates that the tied agent must act under the unlimited and unconditional liability of a single investment firm. The Austrian regulation differs. The variety of kinds of companies with which the tied agent can conclude a contract is higher. In addition to investment firms, also investment service companies and credit institutes may also use tied agents.

Investment services companies cannot participate in the free internal market, which is why the tied agents they use, cannot exercise their freedom of establishment and freedom to provide services.



According to the law, the tied agent is not an investment firm. The tied agent may not use other tied agents or securities brokers.

### **3.3 Scope of the activity of the financial advisor**

In Slovakia, an entity, before filing an application, must decide whether it will perform financial intermediation or financial advisory and in which sectors of the financial market according to the Act No. 186/2009 Coll. On Financial Intermediation and Financial Advisory amending and supplementing certain acts as amended (hereinafter "Act on Financial Advisory") the activity is going to be performed. The Act on Financial Advisory differentiates sectors within which a financial advisor can operate. These are:

- capital market,
- insurance or reinsurance,
- credits and loans, including housing loans and consumer loans,
- deposit-taking,
- supplementary pension saving,
- old-age pension saving.

An important distinction in comparison with the Austrian legal order is that the activity of financial advisor is not a trade. Article 3 of the Act No. 455/1991 Coll. On Trade Licensing Entrepreneurship as amended is excluding it. The regulation of financial advisory as a trade would not be proper because it demands special supervision and a stricter legislation (Kunštáková et al., 2019). In this context, it is important to notice that it might seem that financial advisory has some common features with the trade license – "Business, organizational and economic consultants". In practice, the Act on Financial Advisory could be circumvented by providing financial advisory through this free trade license. In order to prevent the abuse of law, the Ministry of Interior of the Slovak republic has published a list of recommended denominations of free trades and the definitions of their content which states that the scope of a trade license "Business, organizational and economic consultants" does not include advisory services under the Act on Financial Advisory.

### **3.4 Form of financial advisory and special regulation of the single license in selected sectors**

An entity entitled to perform financial advisory is a natural or legal person to whom the respective license has been granted. Unless the Act on Financial Advisory does not provide otherwise, only the financial advisor may perform financial advisory. The Act on Financial Advisory is providing otherwise, when reflecting on the single license principle. A single license or single passport is a principle applied in the EEA, where the licensed activity carried out by a subject established in one EEA country (home Member State) can also be carried out in the territory of another EEA country (host Member State) through its unlicensed branch, provided that the subject has been granted authorization to perform this activity in the home State (Jílek, 2013). Meaning there are entities from other Member States entitled to perform financial advisory without a license from the

National Bank of Slovakia. Since the creation of the internal market for financial services, the principle of a single license has been reflected in the selected legal rules, underlying the idea to remove administrative barriers and to enable business on the basis of an authorization granted by the home Member State.

In accordance with Act on Financial Advisory a financial intermediary from another Member State in the sector of insurance or reinsurance and a financial intermediary from another Member State engaged in the provision of housing loans may perform financial advisory. The activities these two categories is not connected with the filing of an application within the licensing procedure. As already mentioned there is no need for a license to perform the activities of a financial advisor. In the beginning the supervisory authority of the home Member State notifies the National Bank of Slovakia. The activity may be performed in the same scope as in the home Member State.

### **3.5 Distinction between advisory and mediation**

In Austria, the commercial investment advisor is entitled to advisory and mediation. This is an important difference between the two legal orders. In Slovakia, the distinction of financial intermediation and financial advisory is a dominant feature of the regulation. The simultaneous conduct of financial intermediation and financial advisory is forbidden by the Act on Financial Advisory. The reason for the prohibition is a conflict of interest that could potentially arise in the simultaneous pursuit of both activities.

The source of remuneration for the financial advisor is the client according to Article 10 of the Act on Financial Advisory. The financial agent, providing financial intermediation is paid by the contractual partner – a financial institution or an independent financial agent according to Article 7, Article 8 and Article 9 of the Act on Financial Advisory. The different entity that pays remuneration for financial intermediation and financial advisory reflects the fundamental difference between the two activities. It is the diverse distribution of financial products and services by financial intermediation and by financial advisory. In this context the conflict of interests between the financial agent and the potential financial consumer can be seen as the most significant problem of financial advisory (Čunderlík et al., 2017). The financial advisor is obliged to provide an impartial analysis of a sufficient amount of financial services available according to Article 3 of the Act on Financial Advisory. The financial agent provides expert assistance, information and recommendations to the client for the purposes of finding the optimal financial product, but only from the offer of the contractors with whom cooperation is given. If both activities would have been accumulated in one entity, the impartiality of the analysis of available products could be compromised, as the recommendation to the client might favor the financial institutions providing the entity with higher remuneration. This potential conflict of interests leads to the regulatory ban of the simultaneous performance of financial intermediation and financial advisory.

As already mentioned, the key difference of the legal order in Austria in comparison with Slovak law is in the absence of the distinction between advisory and intermediation. The commercial investment advisor may perform mediation and advisory, while the financial advisor is obliged to carry out only advisory.

## Conclusion

The legislation, in both countries, is represented by a set of standards that have a regulatory function and are in principle mandatory rules. The public-law aspect is manifested in relation to service providers in particular in the requirements imposed on them and the establishing of derogations from the general business law and the regulation of the obligations when performing their activity.

A key distinction between the regulation in Slovakia and Austria is the difference in the scope of business of the commercial investment advisor in Austria and of the financial advisor in Slovakia. While the commercial investment advisor is entitled to provide advisory and mediation, the financial advisor can only perform advisory.

A major difference of the regulation in Slovakia and Austria lies in the fact, that the Slovak legal order is based on a single statute. It is the Act on Financial Advisory. Before this regulation entered into force, the sphere of advisory and intermediation has been anchored in many acts. The differences in legislation created unequal conditions for the performance of advisory and intermediation, so the legislator introduced a new model of regulation which entered into force on 1 January 2010. The Act on Financial Advisory has its roots in the idea of integration of the various sectors of financial market in order to secure equal conditions for the performance of financial intermediation and financial advisory in the sectors of the financial market. In Austria, the current situation is similar to the one which existed in Slovakia until 31 December 2009. The regulation of mediation and advisory can be found in many different acts. The Austrian regulation can be an inspiration for Slovakia. Since various Austrian legal acts take into account the specialties typical for the sector in question.

An example for the need of change of Slovak regulation is the sector of the capital market. Financial advisory is being performed in this sector in accordance with the Act on Financial Advisory as it comes to obtaining of a license. As far as the rules in relation to clients are concerned, the Act No. 566/2001 Coll. On Securities and Investment Services amending and supplementing certain acts as amended (hereinafter "Securities Act") is being applied. Meaning the currently valid legislation is clearly making differences between the sectors, as the one of the capital market, is being partially regulated by the Securities Act. As the sector of capital market shows distinctions, this regulation is a logical consequence. But the original idea of the legislator concerning the creation of equal conditions in Slovakia is not fulfilled anymore as the regulation can be found in two different acts. Another argument for excluding the sector of capital market from the scope of the Act on Financial Advisory is the MiFID II – regulation which is vanishing the line between financial intermediation and financial advisory. What the Slovak legal order could derive from the Austrian is the separate regulation of financial advisory (and also financial intermediation) on the capital market. As far as the capital market is concerned, a *de lege ferenda* proposal seems appropriate. This would introduce a major change. We suggest changing the currently valid legal frame in the way that its rules governing financial intermediation and financial advisory would be transformed into the Securities Act.

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