

Varazdin Development and Entrepreneurship Agency
in cooperation with
John Naisbitt University
University North
Faculty of Management University of Warsaw



Economic and Social Development

21st International Scientific Conference on Economic and Social Development



Editors:

Ana Jurcic, Dijana Oreski, Mihaela Mikic

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THE ROLE OF THE ENVIRONMENT IN TOURISM EXPERIENCE CO-CREATION

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ABSTRACT

Co-creation of experience has become an effective alternative to which tourism operators are increasingly turning. The main objective of this paper is to analyze in depth the components of a suitable environment that act as basis of various interactions that allow the co-creation of experience. This environment is nothing but a real environment that holds a physical and social surrounding, and a virtual environment that encompasses all the opportunities offered by the ICTs and promotes co-creation.

Keywords: *Co-creation, Physical surrounding, Social surrounding, Tourism experience, Virtual setting*

1. INTRODUCTION

Involving the customer in the creation of value is not a new idea and no longer a simple trend. Branded under 'co-creation', this neologism has capsized the marketing vulgate which has gone from a marketing that conceives and realizes for the customer, to an Interactive Marketing that conceives and realizes with the customer. The market with, takes precedence over the market to (Ezan and Cova, 2008). However, tourism research continues to place tourists "at the end of the chain", locating them in a responsive role in a tourism experience produced and defined by the provider (s) (Li X. and Petrick J.F. 2008). Otherwise, Binkhorst E. and Den Dekker T (2009) point out that it is very interesting to apply the concept of co-creation of experience in the tourism phenomenon since this sector is considered as an important generator of experiences. Furthermore, Lichrou et al. (2008) argue that the new tourism perspective requires on the part of tourist destinations an understanding of the intangible, the process of experiences, dreams and fantasies of tourists, encounters between people, interaction between hosts, visitors and other tourists. In other words, it is important to place the tourist at the heart of the process. But in order to enable and facilitate the exchange of resources, actors must interact (Grönroos, 2008). To allow these interactions, the need to create a suitable and auspicious environment is crucial. In this perspective, Grissemann and Stokburger-Sauer (2012) have emphasized the need for managers to rethink their strategies and build an environment that promotes co-creation. The aim of this paper is to show the important role of the environment as a support for interactions that promote co-creation of experience. An enabling environment, that can help tourists to have access to the experience. Our research thus proposes to answer the following questions: what is the role of the environment in the co-creation of tourism experience? And how can we create an environment that promotes this co-creation? To answer these questions and through a review of literature and examples, we will analyze the underlying dimensions of the experience environment and its components. First, we will come back to the notion of co-creation in an experiential perspective by highlighting the specificity of the tourism. Second, we will detail the experience environment's facets by focusing on the physical, social and virtual aspects of this environment.

2. FROM THE CO-CREATION OF VALUE TO CO-CREATION OF EXPERIENCE

Prahalad and Ramaswamy (2004) were the first to attempt to conceptualise the notion of value co-creation by describing it as an initiative through which suppliers and customers jointly create value. They suggest that the client should be viewed more as a competent agent, co-creator of value. Later, Payne and al (2008) propose to define co-creation of value as an interactive process involving at least two actors who want to integrate resources and who are involved in one or more specific forms of mutually beneficial collaboration, leading to a creation of value for these actors. A collaboration that will definitely generate superior value. During the value co-creation process, each of the actors plays both roles in turn, the value is thus reciprocally created (Lusch and Vargo, 2011; Truong et al., 2012). This new approach draws its origins from the logic of service dominance (SD Logic). Its founders Vargo and Lusch (2004) advocate that the time has come to change logic, to put service at the centre of our reflections and rethink markets in terms of exchanges of knowledge and specialized skills. The service represents "the general case, the common denominator of trade; service is what is always exchanged "(Vargo and Lusch, 2006, 43). The S.D.L paradigm places the consumer and the company on an equal way in the process of co-creation of value (Vargo and Lusch, 2008a). The actors commit their own resources. Wherefore, service providers should adopt an inclusive service, fostering interaction and participation between the two parties (Grönroos, 2011). Among the major contributions of the S.D.L, is to emphasize the experiential nature of the value (Vargo and Lusch, 2008). And this is how value shift to experience, especially with the development of the experiential marketing. Value is related to the experience (Holbrook, 1999). Furthermore, consumers do not buy products or services but rather experiences. In this sense, Prahalad and Ramaswamy (2004) argue that value and its creative process are thus shifting from a product-centered vision to a vision based on more personalized experiences. Addis and Holbrook (2001) insist that the company must consider the client as a true interlocutor and partner, by involving him closely in the process of producing experience. The co-creation of experience can then be assimilated to an interactive process that allows the client to create his own experience. This concept is based largely on the idea of the customer as a creator of value; he interacts with the organization to "co-create" value (Prebensen, Vittersø, & Dahl, 2013). Indeed, the notion of experience has largely dominated the literature in Marketing, and has become an essential component in the life of the contemporary consumer and is considered as a key element for the understanding of its behavior (Carù and Cova, 2006a). Pine and Gilmore, pioneers of experiential, sees experience as a new category of offer that adds to the amenities, products and services. For them, an individual who buys an experience pays to enjoy memorable events that a company puts on stage to engage him personally at an emotional, physical, intellectual and / or spiritual level. In this sense, the company is driven to produce, not products or services, but customer solutions through memorable experiences (Ford and Bowen 2008). Carù Cova (2006), on the other hand, asserts that the company does not offer experiences, but rather products and experiential contexts that the consumer will mobilize in his own way to co-produce his experience. In this regard, they consider the experience as a subjective episode experienced by the customer in interaction with the company's offer. Service experience is the subjective response or interpretation of an actor of a service element, emerging during the buying and / or using process, or through imagination or memorization (Jaakkola , Helkkula, Aarikka, 2015) According to Filser and Roederer (2015), experiences are considered to be driven by the consumer and the company, or co-created, co-constructed, and co-produced. However, while contemporary marketing has seen a surge in research about experience whether in services or tourism, empirical research on this subject remains very limited (Grissemann and Stokburger-Sauer, 2012), while tourism practices become real experiences charged with psychological, social, spiritual and symbolic functions (Badot and Lemoine, 2014). The tourism experience is seen as "an individual perception generated in a context of interactions and integration of

resources" (Bjork and Sfantla, 2009). Based on this observation, companies are led to create a suitable environment that allows interactions and integration of resources. Indeed, creating a unique experience for the tourist is tantamount to involving the tourist and encouraging his participation in the construction of the offer (Shaw et al., 2011). But this involvement must be supported via a platform that facilitates this participation. Thus, companies should create a fitting environment to the creation of experiences, in which consumers can actively dialogue and co-construct personalized experiences (ValenciaGarcía, 2012). The value resulting from the tourism experience is related to the quality of the environment proposed by the company. It is therefore necessary to delimit the concept of the environment before returning to its importance in the process of experiences co-creation.

3. THEORETICAL FRAMEWORK OF THE EXPERIENCE ENVIRONEMENT

The continuous improvement by distributors of the environment at their points of sale is seen as a source of differentiation and valorisation of their offers (Filser, 2001). researches has shown that consumers spend more time at points of sale where sensory stimulation is stronger, feel more emotional and develop more interaction with sales force. Those Interactions will undoubtedly exhort the co-creation of experience. As a result, we have witnessed the emergence of a vast literature dedicated to the notion of the service environment. A review of this literature allowed us to distinguish several definitions of the consumption/ experience environment. Kotler (1973) was the first to point out that the place, and more specifically the atmosphere, has more influence than the product itself on the purchase decision. He defined the point-of-sale environment as "the efforts to design a buying environment capable of producing specific emotional effects among buyers that can increase their purchase probability." Kotler thus puts into phase the impact of the atmosphere on the affective and behavioural reactions of the consumer. The atmosphere is the result of interactions between the environment's elements (Temessek Bebi, 2009). Rieunier (2000) suggests a more holistic definition: the atmosphere of the point of sale refers to the entire store's setting that can be controlled in order to influence the affective, cognitive, physiological and / or behavioural reactions of the occupants. Indeed, clients seek to immerse themselves in such an experience in a staged setting rather than simply encountering finished products (Firat, Dholakia, and Venkatesh, 1995; Carù and Cova (2006)). This is the Atmosphere that will obviously attract them. The concept of the environment was also approached from the notion of "servicescape", invented by Bitner 1992, which defines this notion as "the decoration in which the service is provided; where the company and its customer interact with all the tangible products that make service performance and communication easier. These "servicescapes" are designed and built for customer comfort. Clients receive messages about services from the atmosphere, design, and elements that make up the social environment (J. Baker, 1987). In marketing literature, several studies have put forward the tangible aspect of the environment. Thus, Lovelock (1999) considers that the service environment is the first tangible sign that customers receive on the service as an interface between the customer and the service company. "Precisely, because services are intangible acts, customers look for quality service indices before, especially for services highly influenced by prejudice (the automotive service, financial services, medicine ...) ".

Other work has discussed the notion of intangibility of the environment, focusing on the concept of relativity and subjectivity by considering the point-of-sale environment as a "personal construct" where the consumer is a "Co-author" (Aubert-Gamet, Cova, 1999).

This statement highlights the role of the environment not only as a physical setting but also as a place for social exchange and interaction. Recent studies have emphasized that the place seems to be highly attractive by its ambience, its style and its capacity to provoke wonder and change of scenery (Badot and Lemoine, 2014).

4. TOWARDS THE IDENTIFICATION OF THE EXPERIENCE ENVIRONMENT COMPONENTS

As we have already mentioned, the service environment combines a set of physical (tangible) elements such as the decor and the supplies used and non-physical (intangible) elements such as comfort, perfume and ambient temperature. Baker (1986) breaks down the environment of a sales outlet into three categories:

- Environmental factors: these are factors of a physical nature. It is the intangible elements of the environment that influence the senses of individuals in an unconscious or conscious way (Bitner, 1990). These include smells, music, temperature, lighting and cleanliness.
- Design factors: these are more apparent (internal and external) stimuli and more tangible than the environmental factors. They can be aesthetic, such as architecture, color, materials, and decoration, or functional such as comfort, signage and layout.
- Social factors: they refer to the human dimension of space. They consist of employees and clients, including their number, appearance and behaviour that may affect the perception and behaviour of people. The first two factors refer to the physical environment of a store, as defined by Belk (1975). Social factors constitute the social environment.

Following this typology, Marketing researchers now divide the environment into two main blocks: the physical environment and the social environment. With regard to the first, it includes all elements based essentially on the senses. Touch, sound, tasting, olfactory and visual elements, while the second groups the appearance, style, number and attitude of the staff and even the customers. In another approach, Pine and Gilmore (1999) defined the experience setting as a physical and / or virtual environment in which entertainment is important, but where educational, escapist, aesthetic and design aspects also play a role. Prahalad and Ramaswamy (2004) talk about an experience environment as a space that enables dialogue, access, transparency and sharing of risks and benefits. These interactions take place via an engagement platform, which may be both off-line and online (Ramaswamy and Gouillart, 2010). Boswijk, Thijssen and Peelen (2005) have stressed also the need to create a virtual space to promote meaningful experiences as long as the internet offers the possibility that everyone communicates with everyone. From the analysis of the theoretical foundations in terms of the experience environment from a co-creation perspective, we can advocate that this environment is split into two large blocks. The first is a real environment that encompasses both the physical and social environment, while the second constitutes a virtual environment. To better understand the importance of the real and virtual environment in the co-creation of experiences, we will detail the role and dimensions of each in this process in what follows.

5. CO-CREATION OF EXPERIENCE VIA THE PHYSICAL ENVIRONMENT

The physical environment holds both atmospheric factors and design factors. It reflects a palpable image of the service provider (Zeithmal and Bitner, 1996 and Shostack, 1977) and is considered as one of the nine main factors for building the company's image (Lindquist, 1974). Daucé (2000) showed the influence of a specific atmosphere factor, the scents diffused within a store, on the emotional states of the consumers. Mehrabian and J.-A., Russel (1974) consider that for a person entering a service location or store, the characteristics of the context, and music, are as important as more classical characteristics such as competence of the sellers, prices, and product's availability. Likewise, Sibérial (1994) has demonstrated a significant influence of the music broadcast on a commercial surface on the emotional states of the barges. Indeed, the rhythm and the style of the ambient music act on the emotional states of the customers. In addition to music and scents, other researchers have demonstrated the strong influence of colours on customers' feelings of, (Lovelock & Wirtz, 2011). Sweet (2007) specifically states that architecture and interior design shape the museum's consumer experiences. In this sense, he argues that flexible internal spaces encourage audience

connections and engender new forms of engagement. In this sense, Filser (2002) considers decor, as a pillar of experience production. This craze for the physical environment and all kinds of its components is due to several factors. One of these factors is the use of its attributes, as cognitive shortcuts, to categorize or make inferences about the quality of products and services (Bitner, 1992, Zeithaml and Bitner, 1996). As a result, customers pay particular attention to physical elements such as design, décor and even symbols to assess different attributes and judge the quality of the offer. The work of Llosa (1996) also showed the influence of elements of the physical environment on customer assessment, in banking and catering. Sacred places and historical monuments are a glaring example of the strong impact that the physical environment can have on tourists and visitors, thanks to their ancestral architecture and atypical design. In the retail world, advanced techniques are used to influence the senses and, along with them, the buying behaviour of the public. A trend is to place new retail concepts in historic buildings (Boswijk, Thijssen, Peelen, 2005). These authors have cited several examples, such as the Apple Store on Regent Street in London, the Nike Town on the Oxford Circus in London, and the Prada stores in New York, dominated by design, architecture, fashion and the space experience. So, it is incontestable that a soothing and enchanting architecture and ambiance of a service place, a captivating smell, as well as an attractive music, can only give rise to positive emotions and strong interactions that allow memorable experiences. On the other hand, contemporary marketing has largely emphasized the importance of staging experiences places. In this sense, Cova and Carù (2006) asserts that "the methods practiced by companies to co-produce experiences with the consumer have one thing in common: the theatricalization and the staging of both the consumer and the company's offer by an important work on the decoration, that is to say the design of the environment and the atmosphere of the store'. As highlighted by Hetzel (2002), the point of sale is a way of breaking with the monotony and the annoyance of everyday life by transporting consumers to an elsewhere, or a 'hyper-real' as indicated by Graillot (2004). It is necessary to make available to its customers spaces with high level of emotional and hedonistic stimulation (Badot and Lemoine, 2015). In this perspective, Pine and Gilmore (1999) asserts that to produce experiences, firms have to transform themselves into stage directors. Finally, the design of the physical environment is considered as a key to the success of an approach that aims to co-create tourism experience.

6. THE SOCIAL ENVIRONMENT AS A DETERMINANT OF CO-CREATION OF EXPERIENCE

As mentioned earlier, the social environment refers to the human aspect of space. It includes both the relationship between the client and the contact personnel and the relationship between the client and the other clients. The role of contact personnel is very important in a service relationship, as shown by several marketing research, including the influence of contact personnel on client judgment (Baker, Bitner and al. Et al., 1999). The service is intangible; people represents the organization and "materializes the service in the eyes of customers" (Eiglier & Langeard, 1975). Moreover, it reflects the image of the company and has a strong impact on customer satisfaction and retention, particularly in the current context where the link is more important than the good (Badot and Cova, 2003). For this reason, we will focus more on the impact of contact personnel on the co-creation of the experience. Besides the physical setting, a tourist service implies a close proximity with the customers. This physical and psychological proximity between the front office staff in a hotel for example, and its clients encourages interactions and interpersonal exchanges which in turn, create a conducive climate to experience co-creation. On the other hand, the concept of co-creation is based on the involvement of the client in the process of creating value. In other words, the company delegates to the customer the execution of a part of his value chain. So, the client is considered as a collaborator or a part-time employee (Mills and Morrison, 1986). That's why socialization is

crucial to ensure the expected execution of the tasks entrusted to the client, and therefore the co-creation. The concept of client socialization is defined by Goudarzi (2005) as "the required learning by the client's participation in the production process of the service". Thus, according to Payne et al (2008), mutual learning in open dialogue is a fundamental element of co-creation. Moreover, this socialization of the customer is mainly achieved by the ticket of the staff in contact who has the mission to guide, accompany and clarify what the tourist has to do and how he will proceed in order to ensure the smooth running of his process of co- Creation of experience. Finally, if the staging and the theatricalization of the places of experiments prove inevitable, it is up to the staff that has to play the role of the actors in order to realize this staged framework.

7. THE VIRTUAL ENVIRONMENT IN A CO-CREATION OF EXPERIENCE PERSPECTIVE

The importance of the virtual environment as well as the physical environment has increased considerably (Boswijk, Thijssen, Peelen, 2005). The virtual environment encompasses all online opportunities and spaces offered by ICTs that allow actors to interact, exchange or share content. Further, new online technologies are popular for their ability to facilitate communication and content exchange between users (Bell and Loane, 2010, Kaplan and Haenlein, 2010, Sawhney et al., 2005, Sharma and Sheth, 2004). Following the advent of Internet technologies, consumers today are well-informed, often connected, networked, and active. On the Internet, the ubiquitous connectivity of virtual consumer communities has given them increased power, especially thanks to the array of options that allow them to interact and further influence the value creation system. These communities range from simple on-line discussion groups to more sophisticated prototyping centres (Nambisan, 2008). Divard (2010) affirms that it is through the "web 2.0" ticket that the notion of co-creation of value takes force in the current management. Tim O'Reilly (2004) defined Web2.0 as "a technological revolution that allows a set of new practices on the Internet". We owe the introduction of Web2.0 and also, "collaborative Platform» and "Social Media" in our vocabulary to this author. On the other hand, the extent of value co-creation concerns the propensity of the company to collaborate with the actors at all levels of the co-creation process (Hoyer et al., 2010). The various interfaces of the virtual setting that promote co-creation can involve consumers at every level of value creation: innovation, design, production, promotion, place and sales. Other platforms aim to focus the co-creation activity at a particular stage of the process (Ramaswamy and Gouillart, 2010). Indeed, the company determines according its needs, the level of consumer involvement in the co-creation of experiences and value (Abidi-Barthe, 2010). To do so, companies use a set of practices such as ideas competitions, games, toolkits, or through brand communities, and manage this co-creation more often through a voting system. To illustrate this, we can take the example of Starbucks franchise, via its MyStarbucksIdea platform. Consumers offer their ideas and vote for those of other users. In addition, consumers can interact, receive feedback and be recognized for their contributions, and this is how Starbucks offers its customers the opportunity to live a special experience on their platform. Another example of online co-creation is Digitas France and Nissan that took advantage of the technological progress by offering their customers a Flash experiential platform combining 3D and interactivity to present the new Nissan Juke. This innovative platform allows the discovery and appropriation of the Nissan Juke 5-door Crossover, where the user can personalize his vehicle and drive it in a real-time 3D environment (Appendix 1). The tourist industry has also taken benefits from the progress of smart technologies. The proximity towards tourists has grown thanks to the reduction of intermediaries, in addition to the emergence of online tour operators guides and even comparators of online tourist products like Tripadvisor or Trivago. Moreover, guests can book directly in hotels through some platforms such as booking, and even make virtual visits via their

website to discover the different premises, activities and services of these hotels. Indeed, we can take the example of Club Med which has appealed to its fans for the choice of the village name, its logo and design by way of the proposed activities. His fans have been solicited to co-build the future Club Med 4 Tridents of Val Thorens. The participation was via the Facebook application "My Val Thorens" by giving a "like" to this page (Appendix 2). Otherwise, today's tourists tend not only to use the web to collect information about destinations, but also to share and exchange experiences through stories of experiences, photos, videos Etc. And since the decision of the individual is conditioned significantly by all the social media (Larceneux, 2007, Ardelet, Brial, 2011, Belvaux, 2011), this emphasizes the importance of the web as Interactions support that allow co-creation of tourism experiences. In this sense, let's take the case of the PIXMEAWAY platform. Based on the concept that a Picture is worth a thousand words, it inspires tourists and helps them plan their trip. The user selected from a set of images that reflect his current travel emotion, Pixmeaway calculates the user's personal profile by interpreting the selected images. Thereafter a special algorithm compares the profile of the user with all the tourist object profiles stored in the database, and then the platform recommends a set of tourist objects corresponding to the user's profile (Appendix 3). The virtual environment allows the co-creation of online experience which can be considered as a foretaste that encourages tourists to come to live a real experience. Whatever its scope, it is clear that the virtual environment remains a privileged way to co-create personalized experiences with its customers.

8. LIMITATIONS AND FUTURE STUDIES

The objective of this work was to try to conceptualize the co-creation of experience and provide a theoretical framework to the environment of experience. This proposed framework is conceptual and therefore requires empirical validation. Moreover, this research has focused only on the role of the real and virtual environment in experience co-creation and therefore does not cover the possible consequences of such collaboration, such as customer satisfaction, propensity to pay more or the intention of fidelity, or even revisit. It would also be relevant to aim for depth in the literature on tourism experience co-creation. And to conduct a study, about the impact of other variables on co-creation, in order to restore all the wealth of the built in the tourism field. Our research has focused on the tourism experience; it would be interesting to conduct the same research, on another type of service even in B to B and to detect other factors of the environmental sphere that influences the co-creation of experience.

9. MANAGERIAL IMPLICATIONS

Companies are constantly looking for innovative ways to deliver superior value and distinguish their offerings. The co-creation made it possible, they can now hope to gain a competitive advantage and ensure their sustainability. Delineating and understanding the role of the environment in co-creating the customer experience is a critical phase in developing and implementing marketing strategies that recognize the collaborative power of customers. Our work offers managers in tourism industry a clear vision on the design of a suitable environment that strengthens the interactions between the company and its customers. Furthermore, the implementation of a co-creation strategy requires strong involvement of the staff and contact personnel in particular and therefore the company's commitment in training programs to ensure the federation and the involvement of its entire staff to the company's strategy.

10. CONCLUSION

The marketing literature has highlighted the need for a shift in marketing towards a value co-creation process that takes place through the exchange of knowledge but also skills (Prahalad

and Ramaswamy, 2004a, Vargo and Lusch, 2004). To enable these exchanges, it is important to create an auspicious environment that supports the interactions that enable such exchanges. Thus, the field of experiential consumption has used the recipe metaphor, where producers offer ingredients that consumers will adapt in their own way, to create their own recipe for life and happiness (Sherry, Kozinets, Borghini, 2007). These ingredients are just the attributes of the environment in which they co-create their own experiences. The state of the art in the field of experiential environment has led us to split this environment into two blocks: a real environment and a virtual one. The real environment refers to the physical and social environment. Thus, we emphasized the importance of staging the experience, particularly in tourism, in order to encourage the co-creation of experience since the consumer who previously bought to own, is now looking for significant experience and of pleasure. To do so, it would be appropriate to "over-stimulate the consumer's senses and imagination through a spectacular staging in a thematized, enclave and secure context" (Carù, et al., 2006). Furthermore, to foster memorable experiences that only tourist can create or conceive, the company is called upon to use the techniques of socialization through its staff in order to clarify what the customer has to do and to accompany him in his experience creation. In addition, it is crucial to take advantage of the advances of ICTs to create a virtual setting capable of involving clients in personalized experiences. It should be noted, that it is essential that all elements of the environment are congruent with the service offered. The design of the real or virtual experience environment is conceived in such a way to exhort or impede the co-creation of experiences which now becomes the supreme blueprint that pivots the marketing practises in the tourism industry. Finally, this work represents a theoretical framework that we intend to support through an empirical study during our next research. Once the impact is justified, our research will begin on how these concepts can be effectively integrated into the tourism sector. Can we say that there is a condition of dependence, independence and / or interdependence between different environments? What correlation can be established between these different environments for better experience co-creation?

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APPENDIX

Appendix 1: Nissan Juke's experiential platform



Appendix 2: The co-creation platform of Club Med 4 Tridents de Val Thorens



Appendix 3: The touristic platform of PIXMEAWAY



BUILDING CAPABILITIES TO BECOME RESILIENT ORGANIZATION IN A TURBULENT ENVIRONMENTS

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ABSTRACT

Several international organizations developed new solvency requirements for insurance (and reinsurance) companies: the International Actuarial Association (IAA) established the so-called Solvency Working Party for this purpose at the request of the Solvency & Actuarial Issues Subcommittee of the International Association of Insurance Supervisors (IAIS); IAA Insurer Solvency Assessment Working Party, formerly known as the IAA Risk-Based Capital Solvency Structure Working Party has developed a standardized framework for determining (required) solvency capital; The European Commission recently worked on the so-called Solvency 2 project, which led to a better risk-based capital approach to solvency requirements applicable to insurers within the European Union than the current framework. The Insurance Committee of the Groupe Consultative Actuarial European provided support for this project; this is also being stimulated by Basel 2 Accord. Much research and discussion are therefore currently taking place on the various types of risks which are relevant to insurance companies, and how adequate economic capital can be defined for them. This Paper is about the types of market and strategic risks that affect insurance companies and the practice in assessment and measurement these risks in the Serbian insurance companies. This paper presents researched issues relevant to building the resilient Serbian insurance organizations through better assessing various risks. These includes the results of field research specifically on 20 biggest insurance companies provided in 2017 on engagement in enterprise market and strategic risks assessment. The major insurance sector developments, as well as the characteristics of risks and bridging theories. The main findings of the research suggest that the risk management practices of insurers are rather good. The vast majority of 85 percent respondents replied affirmatively to the question of whether a significant influence (like sustainability and increase) of different types of risks impacted their business in 2016 what confirmed the hypothesis of the research. Methods of descriptive statistical analysis of the observed data, mean and standard deviation, Statistical tests χ^2 (chi-square) for the testing of independence of the impact of individual risks to the business of insurance companies, and the Pearson's product moment correlation coefficients (r) have been used in the research for the distribution and the cross-correlation structure between various kinds of observed risks. The contribution of the Paper is in the support of Building a Resilient Insurance firms which play an important role as providers of protection against financial and economic risks and as financial intermediaries, as well as in the improvement of their risk management practices.

Keywords: *insurance market risks, strategy, solvency requirements, mismatches*

1. INTRODUCTION

Pursuing Agility and Resiliency Organisations must build agility and resiliency to perform effectively in turbulent environments (Goldman et al. 1994; Pal & Pantaleo, 2005). These practices carry risks when they destroy boundaries, create new interdependencies that must be managed and further open the organisation to its environment. Practices that harden organization boundaries by forecasting and engaging in enterprise risk management are widespread examples of ways that organisations try to build resiliency. From the insurance sector environmental aspects, the growth of the world economy was positive in 2015, but assessed as moderate, except in some developing countries, as well as subdued prices of goods and services. In 2015, *global insurance premium* recorded a real 3.8 percent rise – 2.5 percent in advanced countries (in 2014, a real 4.8 percent rise – 3.9 percent) , and 9.8 percent (9.1 percent in 2014) in developing countries, while Central and Eastern European countries recorded a real drop of 4.5 percent (1.7 percent drop in 2014). *Global life insurance premium in 2015* grew by 4.0% in real terms – 2.5 percent in advanced countries and 11.7% in developing countries, while dropping by 3.5 percent in Central and Eastern European countries.

The real growth in *global non-life insurance premium* in 2015 measured 3.6 percent – 2.6 percent in advanced countries and 7.8 percent in developing countries, while Central and Eastern European countries experienced a 4.9 percent fall. *Global non-life insurance premium* recorded real 2.5 percent growth in 2014, namely 1.7 percent in advanced and 5.5 percent in developing countries, while it fell by 5.2 percent in Central and East EU countries. In 2015 the real growth equals 2.8 percent globally, 1.4 percent in advanced economies, 8.1 percent in developing economies, and 1.9 percent in Central and Eastern Europe (Brien 2006). Four countries with the largest share in global premium (the US, Japan, UK and China) covered more than a half of the global market (51.4 percent) in 2013.

Four countries with the largest share in global premium (the US, Japan, China and the UK) covered more than half of the global market (54.3 percent) in 2015. At the same time, *Serbia* ranked 86th by the size of its insurance premium. Judging by the 2015 premium to GDP ratio of 2.0 percent, Serbia ranks 61st in the world (Chart 1).

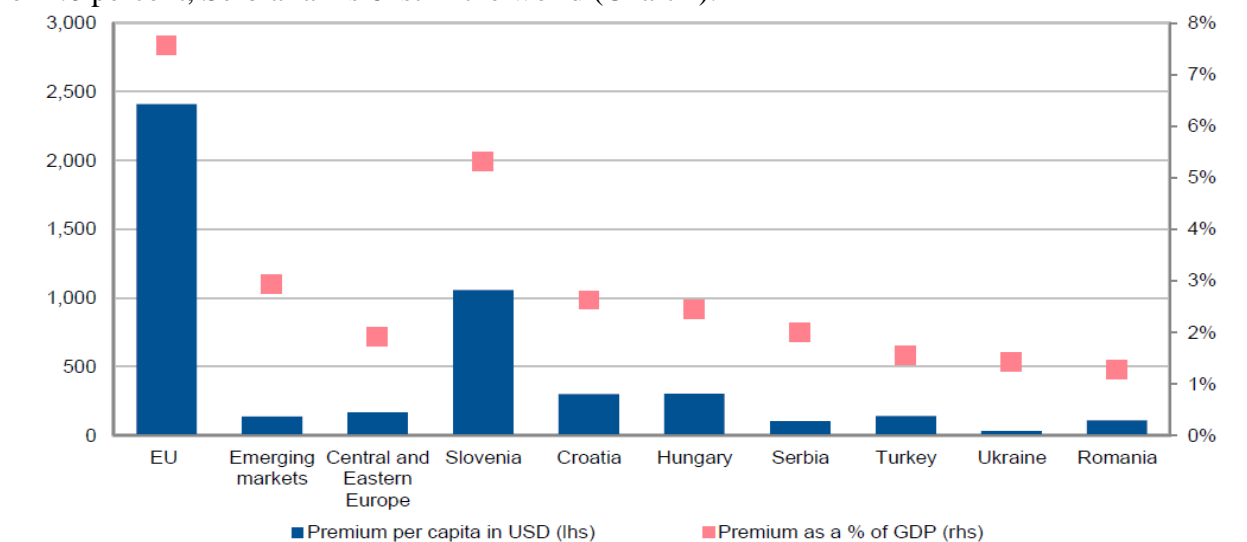


Chart 1: Comparison of insurance sector development indicators (in 2015)
 Source: National Bank of Serbia

In the financial sector of Serbia as a whole (banks, insurance, leasing and voluntary pension funds) insurance sector with 28 companies has been ranked 2nd by its balance sheet amount, capital and employment levels. Of the total financial sector balance sheet of RSD 3,329 bln in 2015, banks accounted for 91.6 percent, and insurance undertakings for 5.8 percent (Table 1).

Table 1: Insurance share in total financial sector

Insurance	(In %)		
	2013	2014	2015
Balance sheet total	4.8	5.2	5.8
Capital	5.5	5.4	6.7
No. of employees	29.5	30.5	30.5

Source: National Bank of Serbia

The Herfindahl Hirschman index, calculated by summing up the squares of the respective market shares or, in this case, balance sheet totals of all insurance undertakings, points to moderate market concentration. At end-Q3 2016 the HHI was 1,252 (Chart 2).

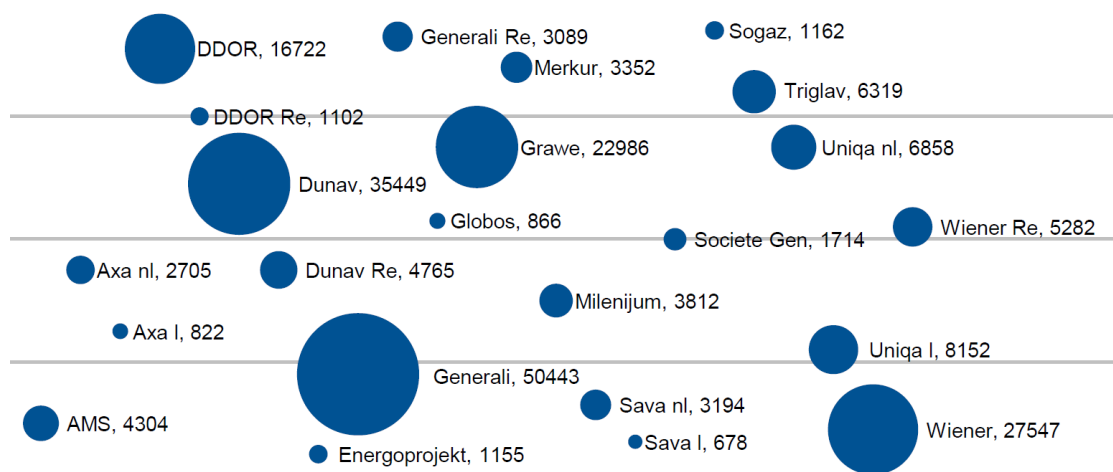


Chart 2: Balance sheet total of insurance undertakings in 2016 (in RSD mln)

Source: National Bank of Serbia

According to the market forecasts, Austria based *Vienna Insurance Group* (VIG) has expanded its presence in Serbia. In December 2016 the group completed the acquisition of AXA's non-life insurance business *AXA Nezivotno Osiguranje* and life insurance business *AXA Zivotno Osiguranje* (which together writes premiums of around USD12mn). National bank is forecasting robust growth in Serbia's life insurance sector in 2017, with premiums forecast to increase by 9.0 percent, in local currency terms, to reach a total of RSD23.2bn. Density remains very low, however, at USD28.2 per capita, indicating limited market coverage. In the larger non-life sector, premiums written are forecast to increase by a more subdued 2.6 percent in 2017 to reach RSD65.0bn. This is in large part a reflection of the maturity of basic motor and property lines which account for the majority of premiums written. The paper is organized as follows. After brief overview of the most relevant environment aspects of insurance sector, risk management definitions and differences among strategic and market risks described in the literature review, are presented the results of the qualitative field research provided in Serbia in 2016. The main aim of the paper was to support the enterprise risk management given through the widespread examples of ways that organisations in the insurance sector in Serbia try to build resiliency, by assessing and resolving the strategic and market risks in their turbulent business environment.

2. THEORETICAL FRAMEWORK

2.1. Definitions

The following definition of enterprise market risk and strategic can be proposed:

Market risk relates to the volatility of the difference between the market values of assets and liabilities within a certain time frame due to future changes in asset prices, yields or returns.

In this respect changes in cash flows of the liability, due to future profit effects sharing, should be also treated.

There can be distinguished in the literature and practice many different types of market risk like: Currency Risk, Basis Risk, Reinvestment Risk, Concentration Risk, ALM Risk, Off-Balance-Sheet Risk, Risk of Interest Rate, Risk of Equity and Property.

There are also *strategic risks* that can strike at the core of every company by: Ineffective mergers or acquisitions, incorrect interpretation of market trends and competitor activity, wrong decisions based on unrealistic price and profitability assumptions, misinterpretation of or failure to comply with legal changes affecting taxation or accounting in a company's governance, planning or organisation. According to Frigo and Anderson (2009), Strategic Risk Management can be defined as a process of managing risks and uncertainties, firstly identifying and assessing, affected by events or scenarios from the company or the business or country environments, that could inhibit an organization's ability to achieve its strategy and strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. All insurance companies are theoretically able to take the risk of producing their own strategic forecasts even covering a relatively long period and with barely adequate staff resources, constantly keeping in mind the need to prevent failure (of strategic risk management) – which may be the result of their merely missing changes in the insurance market environment. An illustration of strategic risk perception provided by Ernst & Young is presented in Chart 3.

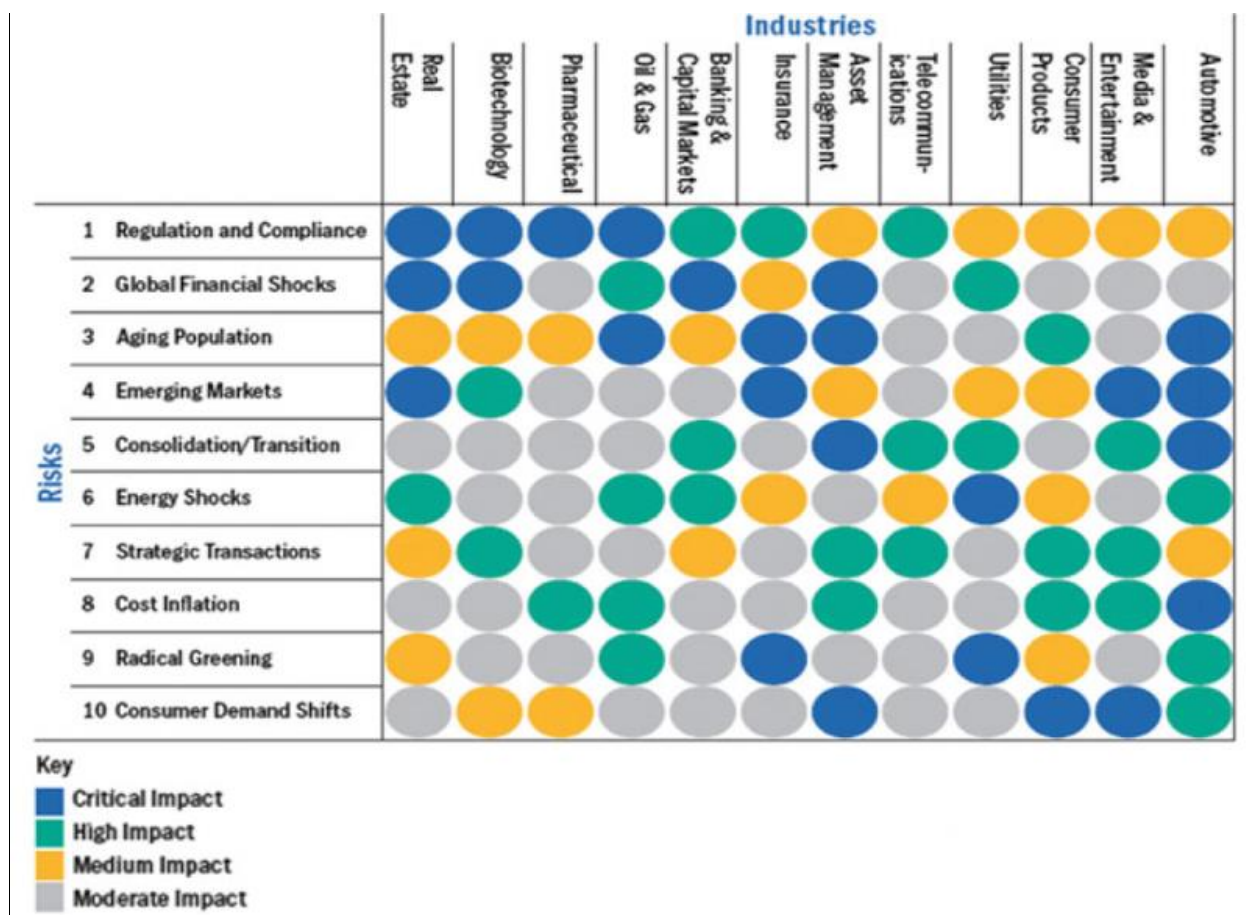


Chart 3: Perception of Strategic business risk
 Source: Ernst & Young

2.2. Bridging theories

Modern Portfolio theory can help in bridging the gap between strategy and risk. Among the key responsibilities of corporate management are the definition of corporate strategy and management of the corporate portfolio. Since their introduction in the 1970s (Henderson, 1970; Wind, 1974; Wright, 1978), portfolio concepts have helped management address three of the central questions of corporate strategy: (1) What are the boundaries of the corporation, i.e. which businesses should be part of the portfolio and what is the underlying logic; (2) How should resources, and in particular capital, be allocated to the different businesses; (3) How can the goals and actions of the individual business units be aligned with the interests of the corporation as a whole and the interests of its stockholders. In today's environment, managers can choose from a broad toolbox of instruments for analyzing and managing the corporate portfolio (Pidun et al. 2011). Another key responsibility of corporate management is risk management. In recent years, most large corporations have established risk management systems that help identify, assess and manage a broad variety of risks, including financial risks, market risks, operations risks and compliance related risk. In a large and growing number of corporations the risk management function has been centralized and is now directly overseen by the board (Servaes et al. 2009). Surprisingly, however, there seems to exist a large gap between these two key responsibilities of corporate management, a missing connection between the strategic management and risk management of the corporation. In strategic management, risk considerations are typically subordinated and treated only in a subjective and intuitive manner. On the other hand, most risk management systems focus on compliance, financial and operational risks, while largely disregarding the risks of corporate strategic decision making. This indicative absence of risk consideration in strategic decision-making puzzles in a time where data and information handling in corporations is the subject of great attention.

This conflict between how financial theory and strategic management approaches risks can be explained by two controversial positions (Amit & Wernerfelt, 1990). The first is the question of efficiency, in terms of financial theory, of capital markets. Only if capital markets are considered efficient and diversification of all nonsystematic risk is possible, business risk should not matter (Wernerfelt, 1985). The second is the value maximization issue of corporate managers. Financial theory suggests that the maximization of value for stockholders should be the only objective of managers. However, the need for managers to satisfy multiple stakeholders, such as employees, suppliers and the surrounding community, is not consistent with financial theory (Freeman, 1984).

3. METHODS AND MATERIALS

3.1. Sampling

In this work are presented results of field research of the 20 biggest insurance companies from Serbia provided in 2017 on strategic development issues in turbulent market imbalances. The main characteristics of companies included related to their organizational structure and business activities. 40% percent (8 companies) are private, 50% work as the part of a larger system, and 2 are public insurance companies.

3.2. Hypothesis and Methodology

For the research and key results the further scientific methods of statistical analysis were used:

- Methods of descriptive statistical analysis of the observed data, mean and standard deviation,

- Statistical tests χ^2 (chi-square) statistics, for the testing of independence of the impact of individual risks to the business of insurance companies, and
- Pearson's product moment correlation coefficients (r) have been used for the distribution and the cross-correlation structure between various kind of strategic and market risks. It takes a value from -1 to 1, and the dependence of the direction of correlation between two variables observed. In other words, when $r > 0$ there is a direct correlation, while for $r < 0$ is inverse correlation. In order to qualitative determination the strength of the correlation, the following interpretation of its absolute value $|r|$ commonly is used:
 - 0.0 – 0.7: Weak correlation;
 - 0.7 – 0.8: Emphasized correlation;
 - 0.8 – 0.9: High correlation;
 - 0.9 – 1.0: Very high correlation.

The hypothesis H_0 of the research was: *Risks to which the insurance company is exposed might have an important impact on its revenues.*

3.3. Key results

In this section, the two chosen groups of risks: strategic and market risk with their sub categories measured by companies is presented according to their particularly impact to the business of insurance companies. These two types of strategic and market risk being regarded as special, independent statistical variables. In this way, on the basis of the observed responses of surveyed insurance companies, can be accurately and quantitatively expressed the importance and influence of each strategic and market risk, as well as its effect on the performance of the business enterprise. Each of these types of strategic and market risks are classified as the corresponding dichotomous variables. In this way, for all of these variables a descriptive statistical analysis was applied, the proportion (i.e. mean value), as well as the standard deviation of positive responses have been computed, and their values are shown in Tables 2 and 3.

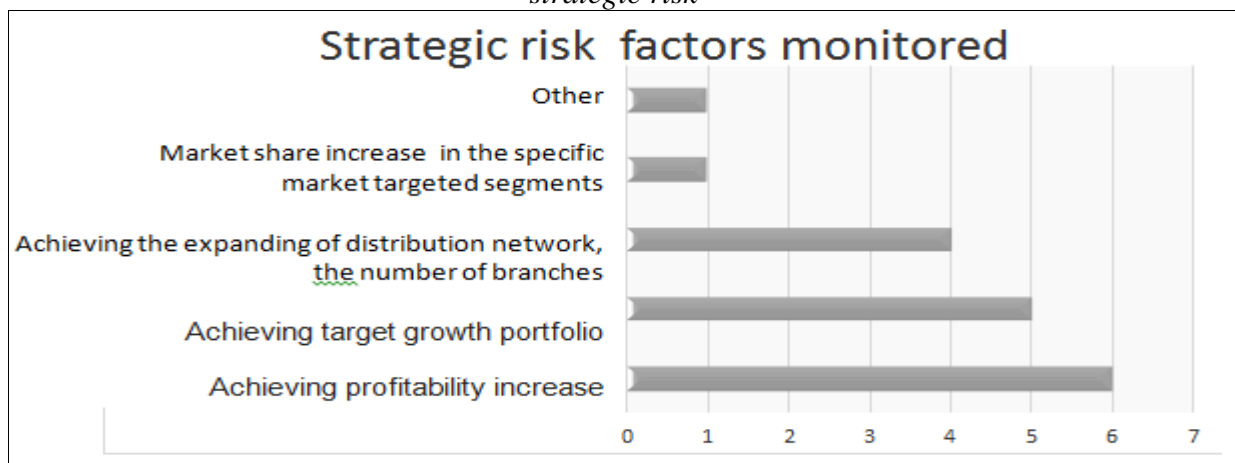
Table 2. Frequencies of positive answers of various categories of strategic risk

Variables	Strategic risk sub categories measured	Number of companies	Proportion (p)	Standard deviation	χ^2 -statistics (p -values)
X_1	Achieving profitability	6	35.29%	0.4779	6.235 (0.1822)
X_2	Achieving the goals of growth portfolio	5	29.41%	0.4556	
X_3	Achieving the goals of network expansion	4	23.53%	0.4242	
X_4	Increasing the percentage of the particular target market segments	1	5.88%	0.2353	
X_5	Other	1	5.88%	0.2353	

Source: Authors

As it can be easily seen, the majority of the value of the positive responses of the respondents has been expressed during the first three variables (subcategories) i.e. at the risk of achieving profitability (variable X_1), the risk of achieving the objectives of growth portfolio (variable X_2) and the risk of achieving the objectives of the spread of networks and departments (variable X_3). Then, with a relatively small share, the value of the last two variables X_4 and X_5 follow. Looking at the whole structure and the number of positive responses, it can be seen by their relatively equal representation in the sample. This fact is confirmed by the formal relatively small values of Pearson statistics ($\chi^2 = 6.235$), and it can be also observed in Chart 4.

Chart 4. The number of positive responses of the surveyed companies on the impact of strategic risk



Source: Authors

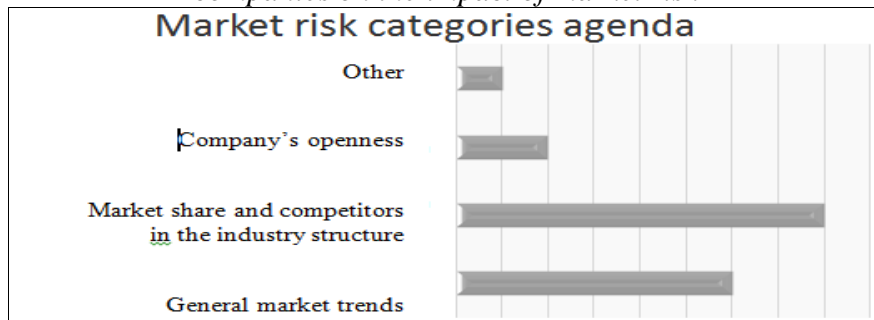
Table 3. Frequencies of positive of various categories of market risk.

Variables	Market risk sub categories measured	Number of companies	Proportion (p)	Standard deviation	χ^2 -statistics (p -values)
Y_1	General market trends	6	35.29%	0.4779	7.706 (0.0525)
Y_2	Market share and structure of competitors	8	47.06%	0.4991	
Y_3	Openness of positions of legal persons	2	11.76%	0.3222	
Y_4	Other	1	5.88%	0.2353	

Source: Authors

Descriptive statistical analysis of market risk is based on the formulation of four dichotomous variables. They are, together with the appropriate quantity indicators, described in Table 3. Almost the half of respondents has given affirmative answers about the impact of the risk of market share and the structure of competition (variable X_2). Following, their confirmative views on the impact of the risks arising from general market trends can be seen (variable X_1). Finally, a much smaller number of respondents believe that there is a serious impact of the openness of the legal entity risk (variable X_3).

Chart 5. The number of positive responses of the surveyed companies on the impact of market risk



Source: Authors

The vast majority of 85% respondents replied affirmatively to the question of whether a significant influence of different types of risks impacted their business in 2016. 40 percent of interviewed companies confirmed that the impact led to the sustainability of their income, 30 percent argued that the impact of the risks highlighted in the reduction of possible earned income, i.e. believes that the risks affecting the increase in their income in 2016 (Table 4).

Table 4: The impact of risk to incomes of researched insurance companies in Serbia in 2016

	Respondents	percent
Sustainability of income	8	40%
Reduction in income	6	30%
Increase of income	6	30%

It has been investigated the distribution and the correlation structure of the aforementioned categories of strategic and market risk. For this purpose, it has been precisely analyzed the relationship and correlation structure between the different categories of strategic and market risks in comparison on their impact to realized incomes of insurance companies in 2016. Tables 5 and 6 show the Pearson's product moment correlation coefficients, with the statistical significance of .001, between different categories of strategic and market risks, respectively. When considering the strategic risk categories, the greater value of Pearson's product moment correlation coefficients has correlation between risk of Achieving profitability and increasing of income, which is equal $r = 0.8740$ (high correlation). After that, it follows the cross-correlation between achieving the goals of network expansion and sustainability of income, which is approximately equal 75 percent (emphasized correlation). Let us remark that all of the others estimated values of the Pearson's correlation coefficients are relative smaller (the lowest value is less than 64 percent).

Table 5: The correlation coefficients of impact of strategic risk to incomes in 2016.

Strategic risks components	Sustainability of income	Reduction in income	Increase of income
Achieving profitability	-0.6731	0.4786	0.8740
Achieving the goals of growth portfolio	0.4097	0.5806	0.6399
Achieving the goals of network expansion	0.7494	0.5813	0.5758

Increasing the percentage of the particular target market segments	-0.1846	0.6137	0.6517
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Cross-correlation coefficients between the market risks categories and their impact to realized incomes of insurance companies in 2016 are shown in Table 6. Pearson moment correlation shows the highest degree between market share and structure of competitors, as well as general market trends related to the sustainability of income, where the both correlation coefficients are approximately equal 70 percent. Degree of correlation between openness of positions of legal persons and impact of realized incomes is a relative low and mostly shows a negative correlation.

Table 6: The correlation coefficients of impact of market risk to incomes in 2016.

Market risks components	Sustainability of income	Reduction in income	Increase of income
General market trends	0.6963	-0.3443	0.4004
Market share and structure of competitors	0.6968	0.2357	0.3790
Openness of positions of legal persons	-0.1846	-0.1500	0.3535

Source: Authors

4. DISCUSSION AND CONCLUSIONS

In today's fast developing, increasingly digitized and automated economy, transformational trends in technology, economics, and preferences of consumers who are on the rise, make threats to insurance companies. It promotes the need of these companies to set the strategic and market risks management that would help not undermining the basic assumptions of the value of the insurance companies. Innovative technologies and new competitive paradigm affect almost every area of business quickly and radically. For these reasons, it is necessary to scold adequate strategic framework for risk management, which would improve the capabilities of the insurance companies to act proactively to market challenges. Unlike most other industries, risk management has already become one of important business functions of insurance companies. However, these programs are not traditionally designed to deal with its particular challenges of strategic and market risks as with the possibility of minimizing their adverse impact on the insurance companies' business results. In order to efficiently conduct development of insurance industry, the companies from the sector would need to consider the adoption of a strategic risk management as a holistic framework not only to help them to manage potential, but to achieve faster growth and exploit the advantage of the resulting market opportunities. These were the reasons to research the practice of Serbian insurance companies on issues of risk management functions, mainly due to strategic and market risks as of particular importance in the insurance business. The paper presents the results of field research relating to the impact and importance of these internal risks. These risks with the set of components were treated as independent statistical variables, measured in relation to their impact on the increase or decrease in revenues of the company. The correlation between them in relation to the hypothesis is presented, where 85 percent of interviewed companies confirm the hypothesis, that researched risks contribute to change the height of the company's revenues. Particularly high correlation was expressed at risk impact on the amount of profitability, the branch network expansion and sustainability of revenue of the insurance companies, as well as to market share, and the structure of its competitors. The results of research have been processed to different

statistical methods: descriptive statistical analysis of the observed data, statistical tests, (Chi-Square) and Pearson's correlation coefficients.

This work encourages further research concerning the function of risk management in insurance companies, internal and external risks, contributes to implementation of new risk tools and methods, in accordance with modern digital technology and trends. It contributes to the harmonization of the legislation in the eligible area with international standards and conventions of the European Union too.

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PEACEFUL SETTLEMENT OF LABOR DISPUTES IN THE REPUBLIC OF SERBIA AS A CONTRIBUTION TO THE LEGAL ENVIRONMENT OF BUSINESS

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ABSTRACT

In the paper, we will address the peaceful settlement of labor disputes in the Republic of Serbia as a contribution to the legal environment of business and the review of operations of the Agency for Peaceful Settlement of Labor Disputes, statistical indicators, all in the context as a contribution to the legal environment of business. The general view in the paper is that the peaceful settlement of labor disputes in the Republic of Serbia regarding the content, according to the legal approach, above all is in accordance with the standards of the International Labor Organization, but our situation and needs dictate the number of specific features that are reflected in the ways of implementation and the need to reform certain aspects of the institute for peaceful settlement of labor disputes in this segment. The process is influenced by trade unions, employers, founders, stakeholders, the government, citizens, the EU institutions and the UN. Entities dealing with the peaceful settlement of labor disputes in the Republic of Serbia are norm-regulated and are comprised of employees and employers but the regulatory position is under the influence of the wider environment and it can hinder the functioning of the active participants and make their behavior inconsistent with normative practices. With respect to the general interest, through the operations of the Agency for Peaceful Settlement of Labor Disputes, the imperative need to adjust the internal and external environment emerges, which results in benefits for the wider community, as a contribution to the legal environment of business.

Keywords: *peaceful settlement of labor disputes, collective labor disputes, individual labor disputes, the Republic Agency for Peaceful Settlement of Labor Disputes, The Legal Environment of Business*

1. INTRODUCTION

The legal environment of business is a legal discipline that by its nature is more interesting to economists or managers than lawyers, but as a young scientific discipline still requires your full profiling. Although it deals with topics such as asset insurance settlement payments fundamental rights, intellectual property rights, protection of the rights of market competition, consumer protection, basic public procurement, data confidentiality, information technology law, tax system, insurance law, financial institutions and treaty law, international agreements, it appears that the relationship which the legal environment of business brings labor law and related, resulting from it, that is not true because the working relations or disputes that follow labor relations can be of great importance for the entire investment climate and to decisively influence the legal environment of business¹. It is known that in the transition countries the success of privatization was different from country to country, and this difference can be explained to a large extent, investment climate, and of the legal environment of business. Also, transition countries had strong trade unions, social dialogue and the potential for strikes which has strong roots in the socialist legacy.

¹ See: Mintas-Hodak, Lj.: *Pravno okruženje poslovanja*, MATE, Zagreb, 2010.

For all these attention is needed, especially in terms of the legal environment of business, which is focused on the possibilities for a peaceful overcoming of labor disputes, and which is to be explained more in the upcoming pages.

2. PEACEFUL SETTLEMENT OF LABOR DISPUTES IN THE CONVENTIONS OF INTERNATIONAL LABOR ORGANIZATION AND EU

In terms of the existence of international standards regulating labor disputes, the International Labor Organization (ILO) has not established specific procedures for resolving labor disputes, have already established the general Principles and Guidelines for States Parties².

The role of these guidelines and principles is essential when making the national regulations and the establishment of a legislative framework on the prevention of labor disputes, as well as their application in practice. Also, the purpose of establishing the general principles in order to prevent labor disputes and ways of solving them is to encourage the participation of employees in the administration of justice, to protect the basic rights of employees, particularly the right of association to enable the parties (employees and employers) to amicably resolve labor conflict to promote a constructive working relationship. Decent Work Programme Document for the Republic of Serbia from 2013 to 2017 in part related to the improvement of the implementation of international labor standards provides for, inter alia, the provision of technical assistance from the ILO to ratify the Convention on Collective Bargaining No. 151 and 154 in order to promote peaceful industrial relations with the help of effective mechanisms of collective bargaining³.

From regional international documents that exist at the level of the Council of Europe, among others the most important is the Revised European Social Charter by the Republic of Serbia ratified in 2009⁴. The provisions of this Convention establish the obligation of Member States to define in advance the appropriate mechanisms for resolving labor disputes, which are based on methods of mediation and voluntary arbitration, and that they promote and effectively used (Art. 6 para. 3), and that the state States recognize the right of workers and employers to collective action in cases of conflicts of interest, including the right to strike, subject to obligations that might arise out of collective agreements previously concluded (Art. 6 para. 4). As for the European legislation, it generally does not regulate issues related to freedom of association, the right to strike, lockout and the definition of wages, however, Directive 2008/52 / EC on certain aspects of mediation in civil and commercial cases, aims to facilitate access to alternative dispute resolution and promote the peaceful settlement of disputes (Article 1). The scope of this Directive is limited to cross-border disputes but Member States should not be prevented that the application and the internal mediation processes⁵.

3. PEACEFUL SETTLEMENT OF LABOR DISPUTES IN THE REPUBLIC OF SERBIA

The field of peaceful settlement of labor disputes in the Republic of Serbia detail by Law on peaceful resolution of labor disputes, which was adopted on 22 November 2004 for resolving individual and collective labor disputes⁶. Individual labor dispute in terms of this Act shall be a dispute on discrimination and harassment at work, termination of employment and contracting and payment of the minimum wage (hereinafter: individual dispute).

² Kulić, Ž., Radno pravo, Privredna akademija, Novi Sad, 2008. str. 58.

³ http://www.socijalnoekonomskisavet.rs/cir/doc/dostojanstven_rad2013-2017.pdf

⁴ http://www.socijalnoekonomskisavet.rs/doc/revidirana_evropska_socijalna_povelja.pdf

⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:136:0003:0008:En:PDF>

⁶ Official Gazette Republic of Serbia No. 125/04

The individual is considered to be slow and slow on the occasion of individual rights stipulated in the collective agreement, other general act or contract of employment - reimbursement for meals during work, reimbursement for commuting to and from work, payment of jubilee awards, and payment of holiday allowance for annual leave. A party in individual dispute in terms of this Act shall be considered an employee and the employer. Collective labor dispute in terms of this Act, shall be a dispute on the occasion: reasoning, the amendment or application of the collective agreement; implementation of a general act governing the rights, obligations and responsibilities of employees, employers and trade unions; exercising the right to trade union organization and operation; strike; exercising the right to information, consultation and participation of employees in the management in accordance with the law. The general act in terms of this Act shall be considered rules of procedure and the agreement of the employer and trade unions, in accordance with the law. Party to the collective dispute shall be considered participants in the collective agreement - in accordance with the law or the employer, union, employee or representative of employees - in relation to the application of a collective agreement or general act and exercise of collective rights, in accordance with the law. In regard to the settlement of individual labor disputes the method that is established by law the arbitration procedure. Arbitration is a form of dispute resolution in which an independent third party is considering the arguments of both sides in the conflict and then makes a decision which is final and binding on the parties to the dispute. Collective labor disputes are resolved before a conciliation committee, composed of representatives of the parties to the dispute and an independent third party (the mediator), in which the mediator only offers technical assistance and has no decision-making authority. The aim of this procedure is to achieve a stable agreement. The process of peaceful settlement of labor disputes and selection of conciliators and arbitrators in the proceedings is based on the principle of voluntariness. Article 18 of the Act, deviates from this principle, and in the activities of general interest, established the principle of compulsory initiation of proceedings. It is stated in line with international methodology of solving labor disputes, which recognizes three different types of alternative resolution of labor disputes, which depend on the degree of interference by third parties, namely: reconciliation, which is aimed at assisting the parties to reach a mutually acceptable solution, the agency that the procedure where the intermediary - mediator may propose settlement of the dispute and the parties are free to accept or reject such proposals and arbitration that occurs as a last resort, with its quasi-judicial nature and is usually used after a failed attempt mediation⁷.

4. ISSUES IN SETTLEMENT OF LABOR DISPUTES

A ten-year implementation of the Law on the peaceful settlement of labor disputes in the Republic of Serbia, pointed to many problems in practice, why you should come to his shift, of which we will indicate some of the problems⁸.

The arbitration procedure was not sufficiently precise and incomplete, which creates problems in practice arbitrators. Given that the arbitrator after conducting the evidentiary procedure yields a solution that obliges both parties to the dispute and that there is no possibility of a remedy, namely an appeal against the decision is not allowed. Parties may withdraw consent to the conduct of proceedings before the Agency until the start of the trial. After that, it may be decided in the absence if duly summoned party does not appear, according to the documentation it this page. If the party accepts the resolution of a quiet road, but during the proceedings does not come to the hearing, does not submit evidence, the arbitrator must make a decision on the basis of existing evidence.

⁷ See more: Lubarda, B., *Radno pravo*, Pravni fakultet, Beograd, 2012

⁸ See: <http://idcserbia.org/publikacije/istrazivanje-o-mirnom-resavanju-radnih-sporova/>

Since nothing is not disputed allegations from the template to initiate proceedings, the arbitrator shall issue a decision. The decision is final and executable in the first instance. More and more disputes with complicated and voluminous evidentiary procedure, the deadline of one month often brief proceedings concerning abuse are often lasted longer. The same applies to collective dispute the period of a month is often short to solve the problem. In cases involving the wrongful termination, a big problem is the settlement of disputes regarding the cancellation because it can be brought before the court and before the Agency. The practice often shows that there are many examples in which the cancellation is given illegally to the employer or the worker does not want an extension of the employment relationship. Such disputes can only terminate the agreement, which would edit the conditions under which employees would be gone, and you are eligible to employer and employee. In this regard should enable intervention before the Agency, as a form of termination disputes. It often happens that the employees due to lack of awareness and knowledge of the basic elements and the legal concept of mobbing initiate a process proposal, but later determined that there were no legal elements of mobbing and that the procedure was initiated due to other motives and objectives. Thus for example it happens that in cases where the employer handed a warning about the cancellation of the employee, the employee in order to prevent cancellation submit proposals for the peaceful settlement of the labor dispute regarding the mobbing of a situation that happened before and there is no continuity of action that is interpreted as the perpetrator of bullying or other actions employed the face. Also, employees mobbing mixed with other violations of labor rights. Then you need to raise the awareness of employees and the public to recognize the elements, causes, forms of mobbing, not to suffer and to timely react. In the process of peaceful settlement of labor disputes is desirable to introduce some kind of intermediary as a possible end to a dispute that is acceptable to all parties of the dispute. Also, not enough has affirmed the role of preventive mediation, it is possible to introduce mandatory in the private sector - with the mandatory model in terms of the procedure, a voluntary acceptance of recommendations for collective disputes regarding the implementation of sanctions foreseen, in order to respect the same, wherever mediation as possible and preventing the strike. Also, the law has many discrepancies and many provisions necessary to supplement and improve how it would be possible to improve the work of mediators and arbitrators, from the adoption of the Code of Ethics to the adoption of bylaws which would be defined and elaborated keeping procedures.

5. REVIEW OF THE WORK OF THE REPUBLIC AGENCY FOR PEACEFUL SETTLEMENT OF LABOR DISPUTES

The process of peaceful resolution of a labor dispute initiated by the submission of the proposal to the Republic Agency for Peaceful Settlement of Labor Disputes (hereinafter: The Agency). The main elements of the proposal contain are: name, surname and address or name and seat of parties in dispute and the subject of dispute. In addition to the proposal from the parties to the dispute are obliged to submit all available documentation relating to the dispute. It is anticipated that the parties may jointly submit a proposal, but if it does not, further action continues in the manner that the Agency shall submit the proposal and documentation of the other side, which must be made within 3 days whether it accepts the peaceful settlement of the dispute. Same parties to the dispute may agree on the arbitrator or conciliator within 3 days from the date of acceptance of the individual proposal, or consensually appointed in a joint submission. If the parties in dispute does not appoint an arbitrator / conciliator is determined by the Agency Director. The process of peaceful settlement of labor disputes is the most represented in the government and public sector, while although the Agency has a large jurisdiction in the settlement of collective labor disputes, due to irregular affirmation and poor recognition by the social partners, mainly to resolve those disputes for which there is a legal obligation.

The methods of peaceful settlement have been underrepresented in companies mainly in terms of institutions financed from the budget of the Republic of Serbia for example Institutions of culture, health, education, public utilities and others where there are organized forms of associations of employees - trade unions. In previous work it was observed that the granting permitted under the most common problem of the state authorities, particularly by the government. All cases in which consent was obtained for addressing the merits resolved with respect to anticipated legal deadlines. The basic advantages of alternative methods of resolving labor disputes (extra-judicial ways) are numerous, some of which are reflected primarily in the efficiency and effectiveness of the proceedings, provided the equality of parties, left to party autonomy, voluntary, free, informal, leading to better resolution of labor disputes, eliminates the need to conduct long and costly court proceedings, disputes are resolved in the presence of a neutral third party, improves communication parties to the dispute and others. Effective use of these mechanisms it is possible to minimize the effect of applying the negative consequences of labor disputes, which inevitably affect the preservation of social peace. However, the basic prerequisite for their successful resolution, and achieve long-term agreement is the existence of serious intentions and readiness of the parties to the dispute to active participation resolve the actual dispute. In the Republic of Serbia during the transition there has been foreign investment and gradual privatization, but significant layoffs and shutdowns work in industrial production, which further complicates the situation regarding the protection of social and economic rights of employees and other socially vulnerable categories of the population. Even during the global economic crisis, the situation has further deteriorated. Despite the difficult economic situation, necessity makes a large number of employees to exercise their rights in court, which is the longest and most expensive way for the prosecutor and the defendant. In his previous work, the Agency has successfully solved a large number of labor disputes, and it is characterized by the flexibility of its work in monitoring the problem-solving employees, or the Agency has not fully managed to establish itself as an alternative to the settlement of labor disputes and to resolve them for the parties in dispute addressing the court. From 2005 until the end of 2016 raised a total of 14,192 labor disputes, of which the merits of the 5206 labor dispute is resolved. Of this number was 13950 running of individual labor disputes, of which 5086 resolved the merits of labor disputes. When we speak of collective labor disputes, in the same period were raised 242 collective labor disputes of which resolved 120 merits of collective labor disputes⁹.

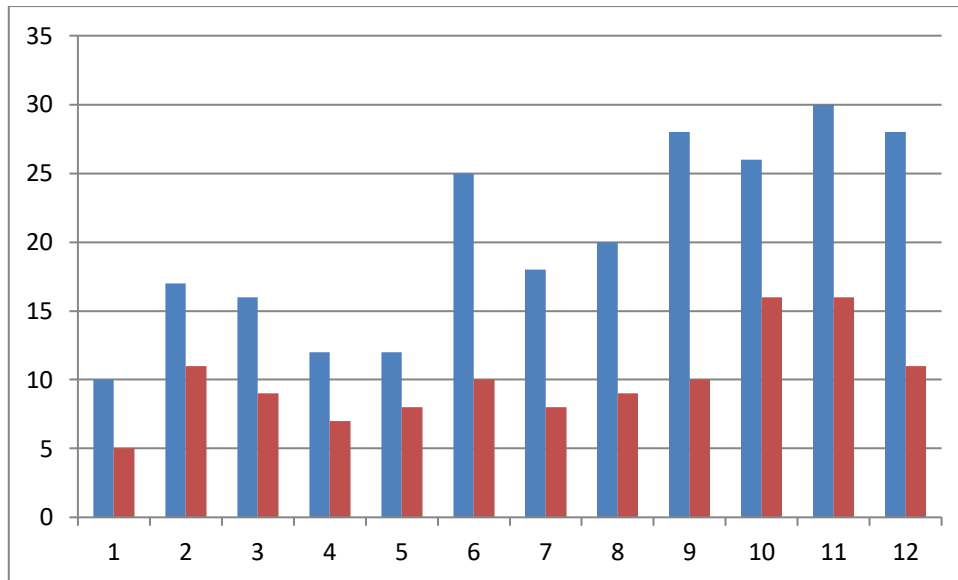
*Title 1: Statistical indicators
(Table ends on the next page)*

Year			
Collective labor disputes		Individual labor disputes	
Running procedures	Merits resolved	Running procedures	Merits resolved
2005			
Collective labor disputes		Individual labor disputes	
Running 10		Running 857	
Merits resolved 5		Merits resolved 269	
2006			
Collective labor disputes		Individual labor disputes	
Running 17		Running 4977	
Merits resolved 11		Merits resolved 1659	
2007			

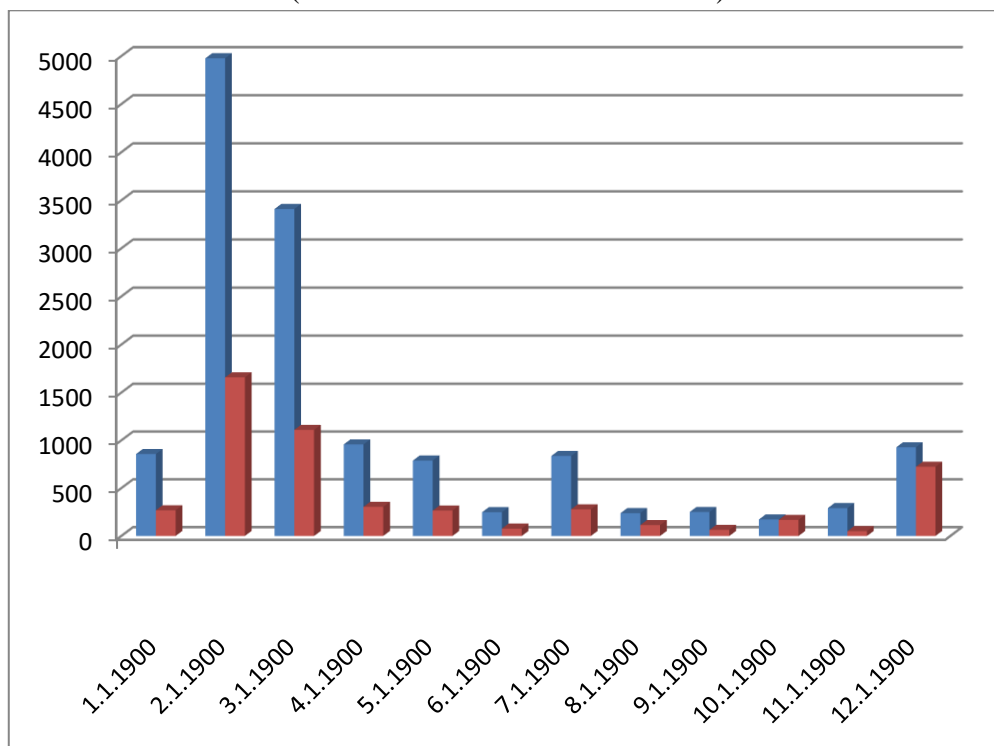
⁹ See: http://www.ramrrs.gov.rs/?page_id=316&lang=en

Collective labor disputes Running 16 Merits resolved 9	Individual labor disputes Running 3410 Merits resolved 1110
2008	
Collective labor disputes Running 12 Merits resolved 7	Individual labor disputes Running 958 Merits resolved 305
2009	
Collective labor disputes Running 12 Merits resolved 8	Individual labor disputes Running 789 Merits resolved 266
2010	
Collective labor disputes Running 25 Merits resolved 10	Individual labor disputes Running 249 Merits resolved 77
2011	
Collective labor disputes Running 18 Merits resolved 8	Individual labor disputes Running 837 Merits resolved 279
2012	
Collective labor disputes Running 20 Merits resolved 9	Individual labor disputes Running 239 Merits resolved 114
2013	
Collective labor disputes Running 28 Merits resolved 10	Individual labor disputes Running 251 Merits resolved 64
2014	
Collective labor disputes Running 26 Merits resolved 16	Individual labor disputes Running 173 Merits resolved 168
2015	
Collective labor disputes Running 30 Merits resolved 16	Individual labor disputes Running 292 Merits resolved 51
2016	
Collective labor disputes Running 28 Merits resolved 11	Individual labor disputes Running 928 Merits resolved 724
Total: Running 242 Merits resolved 120	Total: Running 13950 Merits resolved 5086
TOTAL RUNNING 14192 MERITS RESOLVED 5206	

Title 2: Collective labor disputes
 (From 2005 until the end of 2016)



Title 2: Individual labor disputes
 (From 2005 until the end of 2016)



Following the statistical work of the Agency since the establishment of the annual reports on the work that we have been a source of information, the number of procedures is shown by years in the tables attached. Also, describing the number of ongoing disputes and those that are saved on the merits, therefore obtained the consent of the other, and the difference between these two numbers is represented Predosa to be resolved not approved, but please note that all these procedures are resolved in administrative proceedings.

6. CONCLUSION

The situation in the field of peaceful settlement of labor disputes in the Republic of Serbia and the contribution of the Republic Agency for Peaceful Settlement of Labor Disputes improvement of the same, after over ten years of implementation of the Law on the peaceful settlement of labor disputes is gratifying and definitely encouraging, with obvious improvements in all segments compared to previous times. We can say that the statistical indicators of the number of prosecutions are encouraging and justify the introduction of a peaceful settlement of labor disputes in the legal system of the Republic of Serbia. However, the ten-year experience shows many weaknesses and shortcomings of the peaceful settlement of labor disputes and points to the need for improvement, notably through better normativeness. Consequently, the regulation of the peaceful settlement of labor disputes is only possible through the coordinated work of all participants of the peaceful settlement of labor disputes in the planning and improvement of the whole system. Therefore, we can only talk about the process, not a one-off activity, which will in future lead to the desired shift.

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RESEARCH OF DEVELOPMENT AND GROWTH PERSPECTIVES OF THE LOCAL ICT SECTOR

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ABSTRACT

Eastern Croatia and its most important urban and university center city of Osijek have undergone a drastic transformation of the economic structure in the last quarter century. With the disappearance of traditional industries (metal processing, wood processing, textiles, graphics and part of the food processing industry) and the inadequate development of the primary sector (agriculture, forestry) a huge gap was created in the economics equality of the regions in Croatia. The young generations of educated people remain unemployed for a relatively long time, migrate to large urban centers (in this case to Zagreb) or even emigrate to European countries in search of employment. Under these conditions, a small enthusiastic groups and individuals appear who, relying solely on its own intellectual capital, leave the limitations of the local environment and begin to produce services that can be implemented in the global market. This capital primarily consists of the knowledge and skills of the creative use of ICT. Recognizing the limitations of small separate groups in this sector, began their association in order to achieve better positions in the regional and global market, find new market niches, as well as to create educational centers parallel to the official teaching at schools and universities. There was no classic cluster approach applied, but in early 2013 the non-profit, non-government association named Osijek Software City (OSC) was founded. Its aim is to increase the attractiveness of IT development profession in Osijek, encourage IT entrepreneurship, networking and design of cooperation programs. Today, Osijek Software City brings together more than 40 companies and dozens of individuals. The aim of this study is to assess the possibilities for further development of the regional ICT sector, analyze data on the number of businesses and employment in this sector, as well as to determine whether there is a possibility that this region becomes more competitive and attracts even more young and educated IT professionals and large companies.

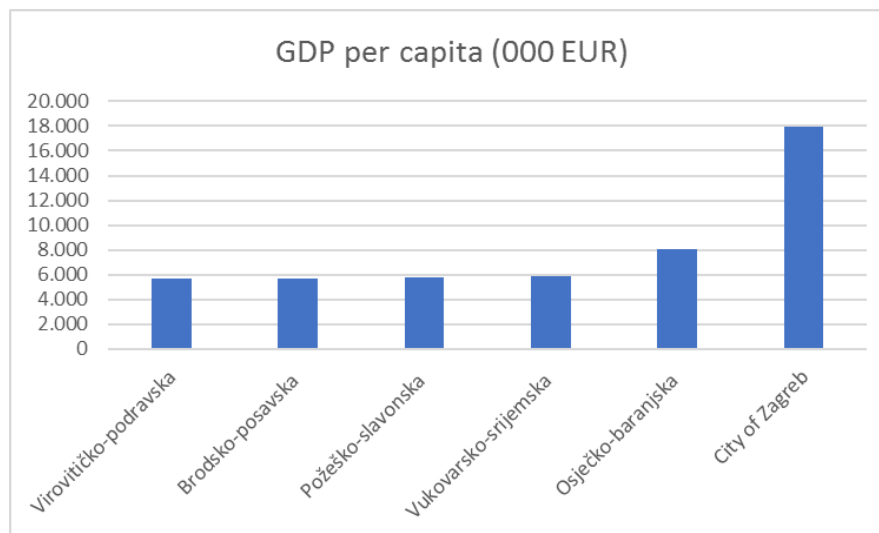
Keywords: *Croatia, digital economy, employment, information technology, IT sector*

1. INTRODUCTION

Croatia, alongside Slovenia, was the most developed republic in Yugoslavia, particularly in the areas of agriculture, industrial production, construction, oil industry, shipbuilding and tourism. After the break-up of Yugoslavia, the Croatian socialist and semi-market economy was transformed into a system based on private ownership and an open market economy. This transition, however, was delayed and hindered by the aggressive war against Croatia and the adjustment of economic policies to the needs of defense. Economic development was burdened by a large amount of war damage, estimated in 1999 to amount to USD 37.1 billion, which also made transformation and privatization more difficult. In addition, the transformation process

by which the former public (social) ownership became state owned and then privately owned, was undertaken in agreement between the political and business elite, frequently without the actual purchase of enterprises or investment in them. The transition therefore had many negative social and economic effects: the impoverishment of the population, a rise in corruption and economic crime, and the devastation of industry. After the immediate difficulties of the war had been overcome, Croatia moved into a phase of increasing Gross Domestic Product (GDP). The highest growth rate of 5.2% was recorded in 2002, and in 2003 GDP reached its level before the war (USD 24.8 billion, 1990). The rising trend of GDP continued until 2008, when a fall and then stagnation occurred, caused primarily by the worldwide recession. At the end of the 1990s, the largest proportion of GDP was accounted for by the service sector (59%) followed by industry (32%) and agriculture (9%), which was similar to most developed countries. Over the last couple of years, due to the cycles of recession in the global economy, there have been negative trends in all branches of the economy, except in tourism (Croatia.eu, n.d.).

Due the war situation and the disappearance of traditional industries (in part because of poorly executed privatization), a huge gap was created in the economic equality of the regions in Croatia. Nowadays, eastern Croatia is one of the least developed regions in Croatia. Eastern Croatia consists of 5 counties: Vukovarsko-srijemska, Osječko-baranjska, Požeško-slavonska, Virovitičko-podravaska, Brodsko-posavska. Graph 1 shows GDP per capita for eastern Croatia regions in 2014. Four counties that have the lowest GDP per capita can be found at the very bottom of all the counties in Croatia. Compared to Zagreb, the Croatian capital, these four counties have three times lower GDP per capita, while the Osječko-baranjska county is in slightly better situation, it has more than two times lower GDP per capita.



Graph 1: GDP per capita of 5 eastern Croatia counties in 2014 (Croatian Bureau of Statistics, "Gross Domestic Product for Republic of Croatia", available at: www.dzs.hr)

Export of Croatian products was reduced to former Yugoslav countries, significant market of loyal consumers, protected by customs duties and lost during the war and disintegration of Yugoslavia. On the other hand, new Western European markets were opened, which Croatia was yet to win, as a small Balkan country and a former member of the Federal Republic of Yugoslavia. With opening up the market, there were also new competitors who had not been present in the closed domestic market, and whose size, strength and experience of business on the open market were a great advantage compared to the unprepared and war-devastated Croatian companies whose adaptation was very slow (Mesarić, Franjković, Šebalj, 2014).

Under these conditions, a small enthusiastic groups and individuals appear. Relying solely on its own intellectual capital, they began to produce products and services (mostly software) that can be offered and implemented in the global market. In order to achieve better market position on the local and global market at first, they decided to launch a project named Osijek Software City (OSC). There was no classic cluster approach applied. According to information available on the website (<http://softwarecity.hr/o-projektu/>), Osijek Software City is a project started in 2012, through which IT companies in Osijek act towards the local community. In early 2013 the non-profit, non-government association named Osijek Software City (OSC) was founded. Its aim is to increase the attractiveness of IT development profession in Osijek, encourage IT entrepreneurship, networking and design of cooperation programs. Today, Osijek Software City brings together more than 40 companies and dozens of individuals (Osijek Software City, n.d.). In this study, authors will show the current situation in the local ICT sector and research its growth perspectives. The aim of this study is to assess the possibilities for further development of the regional ICT sector, analyze data on the number of businesses and employment in this sector, as well as to determine whether there is a possibility that this region becomes more competitive and attracts even more young and educated IT professionals and large companies. This work is funded by Croatian Science Foundation under Grant No. 3933 "Development and application of growth potential prediction models for SMEs in Croatia"

2. LITERATURE REVIEW

There is no lot of papers that deal with the local ICT sector in some country. Most of the papers investigated effects of ICT on GDP growth, where it can be concluded that ICT is an important and significant source of growth (Ceccobelli et al., 2012; Vu, 2011; Venturini, 2009; Kamel et al., 2009; Nasab and Aghaei, 2009; Park et al., 2007; Stiroh, 2002; Colecchia and Schreyer, 2002). Speaking of returns from IT investments, country level studies showed that for the developed countries returns from IT capital investments are estimated to be positive and significant, and for the developing countries they are not statistically significant (Dewan & Kraemer, 2000; Pohjola, 2000; Mankiw et al., 1992). Another type of research in this field was conducted by Holm and Østergaard (2015), who were researching the adaptability of a regional industrial system faced with the shock, like in times of crisis. Their research referred for regional ICT industries in Denmark. It was shown that the ICT sector in urban and agglomerated regions was sensitive to the business cycle, while the sector in less urbanized regions was resistant. They also stated that diversity makes the ICT sector more sensitive to changes in the business cycle, which worsen the effect of the shock but speeds up the recovery. Van Oort and Atzema (2004) in their research analyzed the factors that determine new firm formation in the ICT sector in the Netherlands. The results showed that new establishments in the ICT sector tend to be concentrated in urban areas that are already relatively specialized in this sector and where economic activity is spatially dense. If one looks at the ICT sector in the narrow area of city of Osijek, it can be seen that there is the same situation. Osijek became the place where new IT companies are established. In this area, there is a lot of, mostly young, companies in the ICT sector and economic activity in this field for the last 3-4 years is very high. Since the city of Osijek is a 4th largest city in Croatia as well as the biggest city in eastern Croatia, it implies a presence of other industries, not only IT industry. This confirms the above-mentioned conclusion stated by van Oort and Atzema. Atzema (2001) stated that ICT firms can also be found in smaller towns and outside of the urban concentrations. He conducted a research where identified geographical concentration of the 18,985 ICT firms in the Netherlands. Many ICT firms preferred a location outside the large cities. There was also a tendency of spatial specialization in which large firms in general, are still located predominantly in large cities like Amsterdam. Hall (2006) has researched a successful ICT cluster formations. He stated that one of the best documented ICT clusters was formed in the North Jutland area of Denmark around

the capital of Aalborg. In 2006 Danish ICT sector consisted of four major segments: IT/electronics, telecommunications, broadcasting, information/entertainment. Unlike Sweden, which has Ericsson, or Finland, which has Nokia, Denmark has no dominant company. In 1980s North Jutland was characterized by traditional industries and some of the highest unemployment in Denmark. In 1990s there was a strong growth of IT services and components for the electronics industry. In that time the NorCOM association was founded. It was a formal association formed by some businesses and Aalborg University. That cluster included 35-50 firms, 25 of which belonged to the NorCOM association. One of the main contributors to the growth was Aalborg University, since its capabilities in mobile communications research helped to bring R&D departments of several leading mobile companies to North Jutland. During 1999-2000 there was 35-40 NorCOM firms, employing 4,200 people – half the ICT employment in the region. North Jutland is currently recognized for its cross-sector co-operation and numerous networks involving companies, schools, professional and industrial bodies, public authorities and Aalborg University. The second example of the successful ICT cluster that Hall (2006) mentioned was Finland's leading company Nokia and the ICT cluster that has grown up around it. Thanks to Nokia, Finland, a country with the few natural resources, achieved economic parity with countries like England, France and Germany. Unlike Finland, in eastern Croatia there is no so large and dominant company that could affect clustering around it. Furtherly, another thing helped ICT growth in Denmark and Finland. Initial cluster growth was stimulated by the establishment of the Nordic Mobile Telephony system in 1981-82. Hall (2006) also conducted a research about the current state of the Victorian ICT industry. Victoria is a state in southeastern Australia with a reasonably well developed ICT sector. There are several key research findings related to its ICT sector – poor involvement of women in the ICT industry, competition from overseas ICT industries, the lack of an Australian niche in the global ICT, too many people with ICT skills who are unemployed and, on the other side, a deficit of specific ICT skills in the ICT industry.

3. METHODOLOGY AND DATA

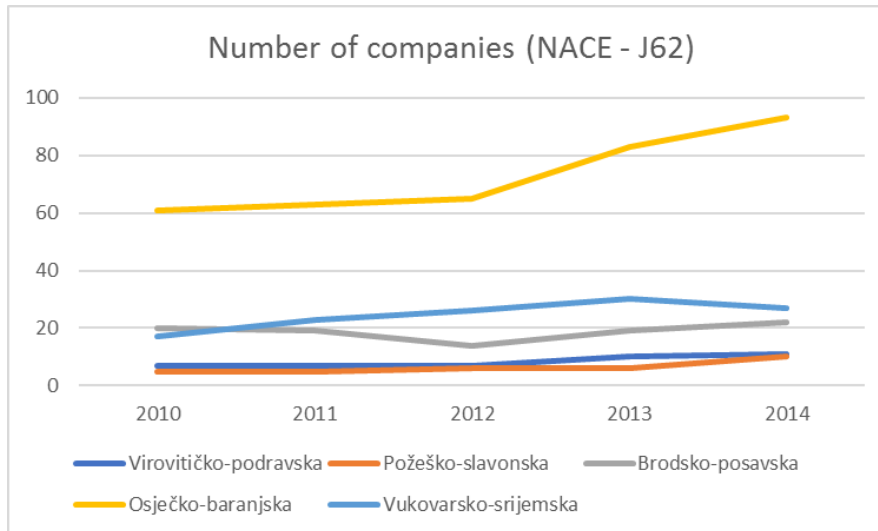
For the purpose of this study the structure and growth of the companies and employees number from the group J62 - Computer programming, consultancy and related activities (according to NACE¹ classification) will be analyzed. Data were collected by the Croatian Bureau of Statistics and the Financial Agency. Using web solution Poslovna Hrvatska (Business Croatia), where different data about companies in Croatia were collected by several sources, the information about all active companies and crafts in the group J62 (Computer programming, consultancy and related activities) were exported. On 31st March 2017, there are total of 4,998 business entities that meet this condition. The exported file contains data about business entity's name, place, ZIP code and county. From the web page of Croatian Bureau of Statistics the information about Croatian counties were collected in order to calculate the density of IT companies per area within the counties. For the purpose of visualization and data analysis, software Tableau was used.

4. RESULTS

The predominant part of the Croatian IT industry nowadays are small companies. According to Mesarić et al. (2014), in 2013 the number of companies with 1-9 employees amounted up to 92.1% of the total number of companies in the ICT sector (companies within Group J –

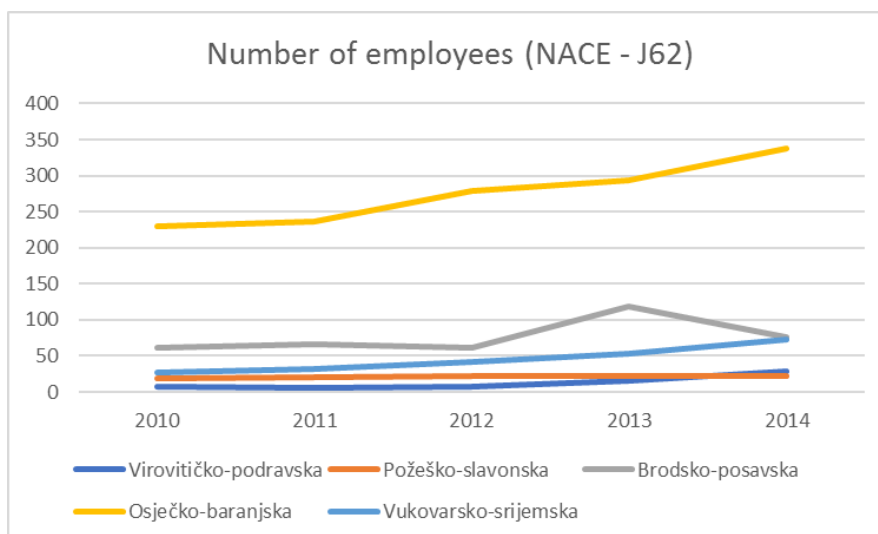
¹ NACE 2007 (National Classification of Activities) has been in operation since 1 January 2008, and it defines areas, divisions, groups and classes of all economic and other activities. The European Community has introduced a statistical classification of economic activities under the abbreviated name NACE that began with the application on 1 January 2008

Information and communication were taken into account). According to the same research, the number of employees, as well as the number of the ICT companies in Croatia has been increased from 2009 to 2013. But what is the current situation in the local IT sector? The statistical data will be presented on the situation in the computer programming, consultancy and related activities of eastern Croatia, for the period from 2010 to 2014.



Graph 2: Number of companies in IT sector (group J62) in the eastern Croatian counties (Authors, according to the Croatian Bureau of Statistics)

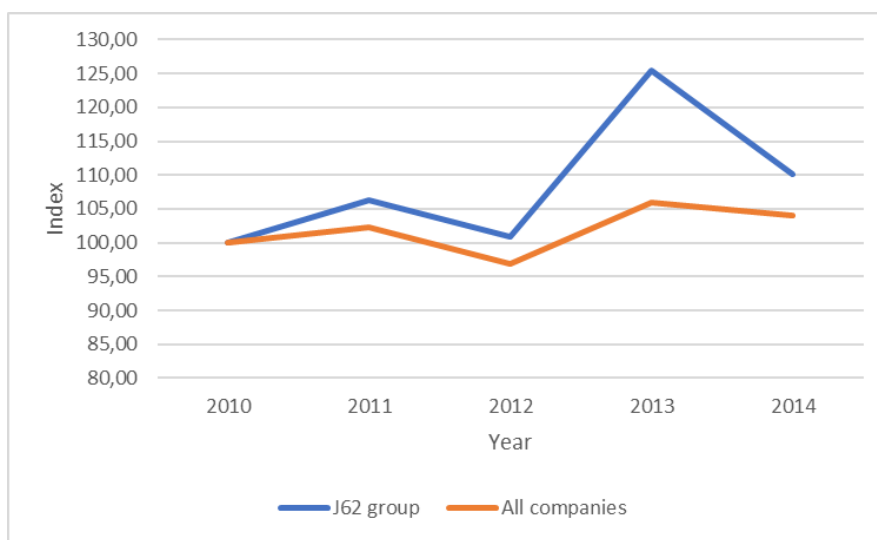
From the Graph 2 it can be seen that all counties have a growth in number of companies in comparison to 2010, especially Osječko-baranjska county where the number of companies increased by 52%, and by 71% compared to 2008 (Barišić, 2016). It has to be mentioned that here are presented only results for legal business entities, while crafts are excluded since those data are not available by Financial Agency.



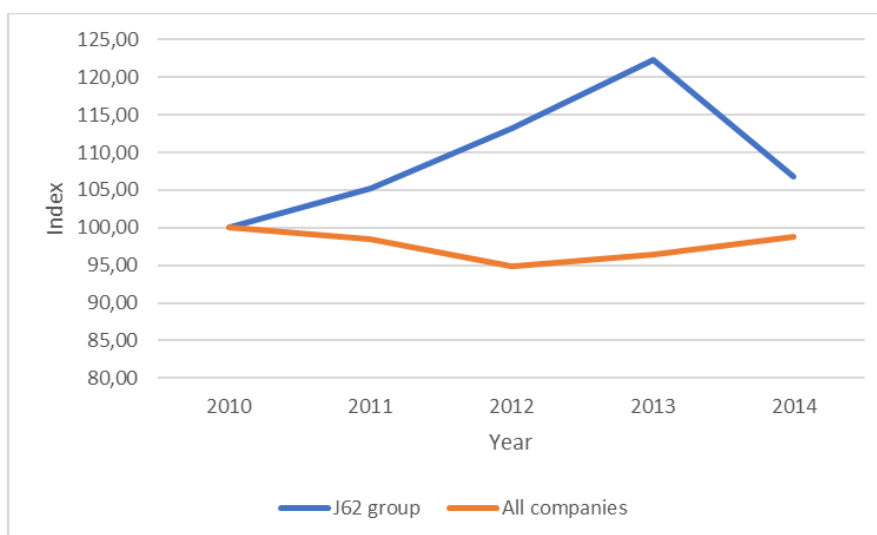
Graph 3: Number of employees in IT sector (group J62) in the eastern Croatian counties (Authors, according to the Croatian Bureau of Statistics)

The similar situation is with the number of employees in this group of activities. As can be seen in the Graph 3, the number of employees in almost all counties is increasing. According to Croatian Employers' Association (2016), in the sector of information and communication

technologies (group J), the sub-sector of computer programming and IT services (group J62) stands out as a leader, since it employs the most of all sub-sectors within Information-communication technology. Computer programming is one of the sectors listed in the key industrial sectors and its results has risen to the very top. Revenue of this ICT sub-sector grew by 11%, but outstanding result was achieved in export – 31% growth only in 2015. The total number of employed ICT specialists is potentially two or three times higher, because some of them perform ICT jobs within the companies that are not registered for ICT activities. Some estimates that the number of employees in this sector will grow to 50,000 by 2025 (Poslovni dnevnik, 2016). Taking into account the indexes of the number of companies and employment growth in the Group J62 compared to all companies in eastern Croatia, as shown in Graphs 4 and 5, it can be seen that the number of companies in IT sector, as well as the number of employees grew at a higher rate than in other sectors. The biggest difference in growth was in 2013.



Graph 4: Index of trends in the number of companies in the eastern Croatian counties in group J62 and all companies, base = 2010 (Authors, according to the Croatian Bureau of Statistics)



Graph 5: Index of trends in the number of employees in the eastern Croatian counties in group J62 and in all companies, base = 2010 (Authors, according to the Croatian Bureau of Statistics)

Currently, the young generations of educated people remain unemployed for a relatively long time, migrate to large urban centers (in this case to Zagreb) or even emigrate to European countries in search of employment. In order to soften this negative trend, as mentioned earlier in the paper, the association of IT companies in Osijek was established. Graphs 4 and 5 show the results of that initiative. These graphs show that, compared to other sectors, IT sector had greater growth/smaller decline in number of companies and employees. This confirms that IT sector has a positive impact on economy of eastern Croatia. The high youth unemployment rate certainly forced one part of young people into entrepreneurial activities through self-employment, as researched by Franjković et al. (2015).

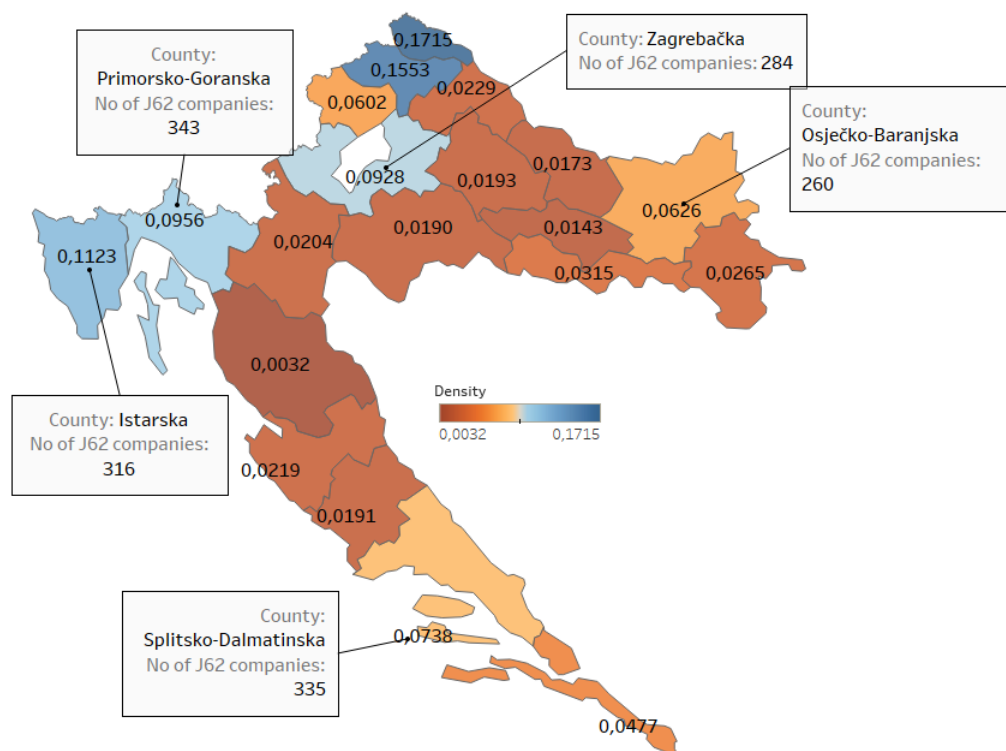


Figure 1: Density of IT companies per area within the counties (Authors, according to the Croatian Bureau of Statistics)

From another source, Poslovna Hrvatska (2016), the information about all active companies and crafts in the group J62 (Computer programming, consultancy and related activities) were exported. There are 4,998 valid entities on 31st March 2017. Those entities were separated by counties. The biggest number of companies has City of Zagreb - 2,386. If Zagreb was excluded, there are only 5 counties with more than 200 companies in J62 group of activities. Besides such absolute numbers, the density of IT companies per area within the counties was examined (the number of IT companies per square kilometers), which is shown in the Figure 1. City of Zagreb was excluded from the Figure 1, since its density is 3.722. The average density in the counties comes to 0.029 companies per square km. As much as 50% of all counties do not reach this average. It can be seen that eastern Croatia has a relatively small density, compared to north-western Croatia. Furtherly, the share of J62 companies and crafts in the total number of

companies was examined (Figure 2). Figure 2 shows that City of Zagreb has the largest share of 162 companies and crafts of all active companies, followed by Varaždinska, Međimurska and Osječko-Baranjska counties. The situation is very similar to the density, since the 4 of 5 counties of eastern Croatia are in the bottom half of the list. Exception is Osječko-Baranjska county, which is 4th.

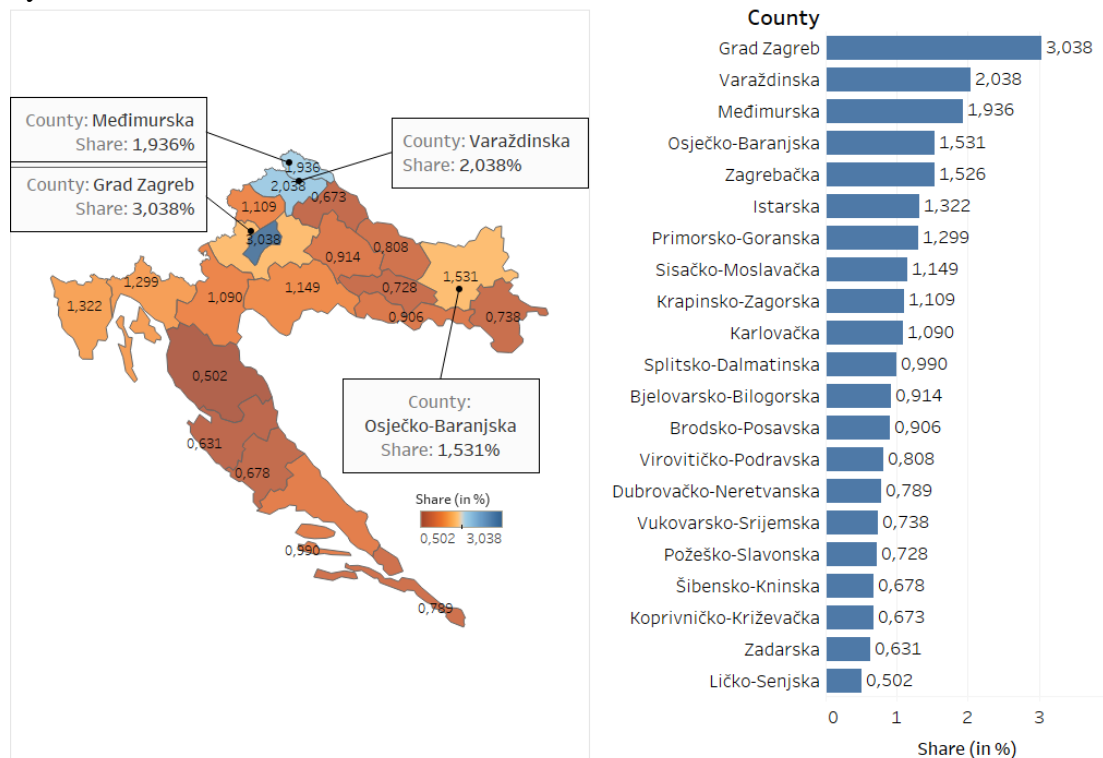


Figure 2: Share of 162 companies in the total number of companies (Authors, according to the Croatian Bureau of Statistics)

5. DISCUSSION AND CONCLUSION

This research shows that the local IT sector still lags behind the rest of Croatia, especially its north-western part. However, in the last four years it can be noticed a positive change in number of IT companies as well as in number of employees in IT sector. Regardless of the crisis, the number of companies and employees is in increase in all eastern Croatian counties. From this research, it can be also seen that during several years IT sector in eastern Croatia grew more than other sectors, speaking of number of companies and employees. This only confirms that IT sector can be initiator of growth in eastern Croatia. How Osijek Software City influenced the establishment of new IT companies shows the share of IT companies in the total number of companies where Osječko-baranjska county took high fourth place. Those are indicators in which direction goes the development of IT sector. The association Osijek Software City has set good foundations for further development of this sector. This trend will certainly continue, since the Croatian economy is on the upswing. The main limitations of this research are missing data for crafts as well as outdated information gathered from the Croatian Bureau of Statistics. In future studies authors plan to define the main concentration areas of IT companies at the level of postal code districts.

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REPORTING ON RISK

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ABSTRACT

The importance of the risk management philosophy and practice is increasing largely due to growing common exposures to aggregate risk, what has motivated the specific research on Serbian practices. The paper presents the results of the qualitative field research on risk reporting, conducted in 2016 in Serbia. Through a series of interviews with 17 insurance companies the research examined current practice in risk reporting and the reporting hierarchy and integrity of functions within the enterprise system. Beside filed provided interviews, there were used methods of Multiple Regression Analysis and X^2 test. The main results show that the risk shaping in this particular financial sector emerged, that there are various levels of risk reporting exist as well as their interconnections with other functions. The findings suggest that the risk management reporting practices of Serbian insurers are variable, generally behind best practices in adjacent sectors, and in some cases are causes of concern but that they have been improving significantly.

Keywords: *Insurance, risk management, risk reporting , insurance market*

1. INTRODUCTION

Insurance firms play an important role as providers of protection against financial and economic risks and as financial intermediaries. Across advanced economies the contribution of life insurers to systemic risk has increased in recent years, although it clearly remains below that of banks. The exposures to aggregate risk are largely the reason of the increase, where the rise in insurers' interest rate makes certain impact. Insurers do not have enough risk culture developed to fulfill their role as financial intermediaries to follow other players at the financial market and to the same (Acharya, 2015). The higher common exposures do not seem to be driven by marked changes in insurers' investment goods, although smaller and weaker insurers in some countries have taken on more risk. Extended risk culture, which alongside the established risk management functions such as identification, monitoring and reporting, can also provide impulses for the reorientation of the whole company. From the perspective of insurance companies, risk management has become very important (Group of Thirty Derivatives, 1993). The insurance market is evolving fast, what would be even supported by the regulatory and macroeconomic factors (Billio et al., 2000; Billio et al., 2011). The repercussions of the economic crisis and a soft reinsurance market mean decreasing also the insurance premiums. Risk managers would have to pay more attentions and improve their knowledge to find better deals (Crouhy et al., 2001; Dimitrios et al., 2012).

2. LITERTURE REVIEW

According to the definition in ISO 31000 (*Hubbard, 2009*), risk management activity is the *effect of uncertainty on objectives*) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. Risk management outcomes and the communication of risk for the purposes of comparing the results with the policy and the early identification of potential problems describe the risk reporting activity (*Glossary of Terms, 2014*). One of the key elements of management is the framework of information on risks that sets standards which ensure a consolidated vision of all risks and enable the board and senior management to take the necessary decisions and actions.

Table 1: Risk reporting framework

	Leadership level	Senior level	Management level	Support level
Risk reporting systems	Establishes a comprehensive risk reporting system that is aligned with other organizational performance management structures and processes.	Reports on the strategic and financial impact of risks.	Ensures that risk reporting systems operate efficiently.	Explains the purpose of measuring and reporting risk performance and the use of technology to support effective risk management.
Risk performance indicators	Defines organizational Key Risk / Performance Indicators (KRIs/KPIs) for evaluating risk management performance, strategy, processes and controls.	Specifies the design requirements of risk performance reporting systems.	Uses analytical tools and techniques to monitor changes to an organization's risks and opportunities and updates risk information.	Complies with legal, ethical and regulatory requirements in the gathering and recording of risk information.
Risk reporting protocols	Ensures that risk reporting systems enable effective decision making and are capable of identifying actual and emerging risks.	Reports recommendations for improvements based on systematic analyses of information at agreed intervals.	Produces risk management reports, highlighting areas of concern, change, emerging threats and opportunities.	Explains the uses of risk information and reports the potential consequences of poor risk reporting

Source: Institute for Risk management

The development and implementation of a risk measurement performance and reporting framework considers senior and management level as leadership levels. This framework is in permanent evolution in order to reflect the best market practices trying to ensure that the information on risks for senior management incorporates the basic principles defined the risk data aggregation, which can be summarized in the following principles:

- *Governance*: establish governance for the life cycle of data and reports, as well as a taxonomy of them, and
- *Data base architecture*: guarantees the insurer’s capacity to aggregate all the risk data in a reliable way, ensuring it is exact, integrated, complete, traceable, updated at the opportune moment, adaptable to the needs and flexible (Rosen, 2012). It covers all risks on the basis of their materiality.

Risk communication within risk architecture enables an organization to achieve a consistent and appropriate risk response. This approach will enable risk management activities to fully support the achievement of the strategic objectives of the organization. At its core, an good framework embeds the principles and practices of risk management into day-to-day business decision-making as it comprises the following five elements:

- Providing insights into all relevant risks and developing early-warning key performance indicators (KPIs) for structural risks; preparing and disseminating risk reports; and stresstesting the resilience of the business in adverse scenarios.
- Defining the optimal risk-return tradeoff and aligning the top team on a clearly articulated risk appetite.
- Making risk management a board-level and top management priority; defining the mandate, role and aspirations for the risk management function; and establishing a robust governance framework for risk.
- Building risk-return considerations into key business processes
- Improving the risk culture across the organization, and potentially linking compensation to risk adjusted measures (rather than P&L metrics, such as combined ratio or return on equity).

Graph 1: Elements of an effective ERM framework



Source: McKinsey Insurance Practice, 2014

3. INSURANCE SECTOR MARKET IN SERBIA

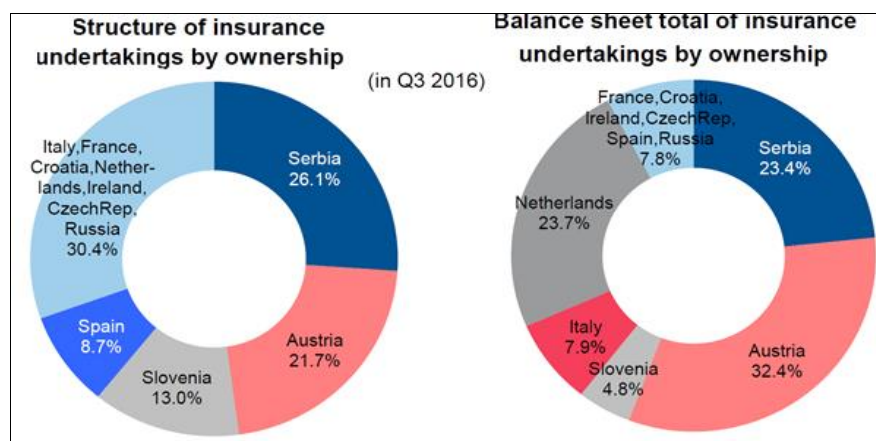
Although Serbia's insurance industry is underdeveloped in comparison to more established Central and Eastern Europe markets, both the life and non-life sectors are forecast to record solid premium growth in 2017. Real GDP growth in the country is expected to accelerate in 2017, supported by strong private and government consumption, marking Serbia's strongest economic growth in nine years and stimulating demand for a range of life and non-life products.

Table 2: Forecasts for Serbia's insurance (2014-2021)

	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
Gross life premiums written, RSD bn	16.01	19.27	21.29	23.21	25.16	27.33	29.66	32.29
Gross life premiums written, RSD, % y-o-y	13.8	20.4	10.5	9.0	8.4	8.6	8.5	8.9
Gross life premiums written, SD mn	181.0	177.1	1185.2	198.9	212.5	227.8	247.2	269.1
Gross life premiums written, USD, % y-o-y	9.6	-2.1	4.6	7.4	6.8	7.2	8.5	8.9
Gross non-life premiums written, RSD bn	53.40	61.66	63.30	64.96	66.55	68.47	70.19	73.98
Gross non-life premiums written, RSD, % y-o-y	6.9	15.5	2.7	2.6	2.5	2.9	2.5	5.4
Gross non-life premiums written, USD mn	603.7	566.8	562.2	556.8	562.2	570.6	584.9	616.5
Gross non-life premiums written, USD, % y-o-y	2.9	-6.1	-2.9	1.1	1.0	1.5	2.5	5.4

Source: National Bank of Serbia

Although a small market, Serbia is home to several large regional and multinational providers which are well placed to take advantage of growth potential. The breakdown by ownership shows that of the 23 insurance undertakings, 17 were in majority foreign ownership. Foreign-owned insurance companies, which entered the market based on Greenfield licenses, continued to record at end-Q3 2016 a dominant share of 93.4% in life insurance premium, 62.4% in non-life insurance premium, 76.6% of total assets and 68.7% of total employment.



Graph 2: Insurance undertakings, 2016

Source: National bank of Serbia

In addition to insurance undertakings, the market consisted of 19 banks and five financial lessors, licensed for agency operations, 89 legal entities (insurance brokerage/agency services), 97 insurance agents (natural persons – entrepreneurs), as well as 15,780 natural persons licensed to engage in insurance agency/brokerage.

4. METHODS AND MATERIALS

4.1. Characteristics of the sample

In this part of the paper, the empirical research that aims to verify the specificity of the (potential) positive impact of risk management reporting in Serbia was described. In order to obtain adequate information on the attitudes and the ways in which businesses manage in its operations, 17 insurance enterprises in Serbia in 2016 was interviewed as a sample. The basic characteristics of the respondent insurance companies given in Table 1 are related to the structure of observed sample with the values of the absolute and relative (i.e. percentage) frequency. Finally, the last column of Table 3 contains the corresponding values of Pearson χ^2 statistic, together with the corresponding p-value, indicating the relative uniformity structures of the sample, and the degree of significance of differences between the modalities of the some (attributive) feature.

Table 3: The basic characteristics of the surveyed insurance companies

Feature	Number of companies	Percentage	χ^2 -statistics (p-values)
<u>1. Forms of companies</u>			
Private independent company	6	35.29%	4.353 (0.1135)
Part of larger system	9	52.94%	
Public company	2	11.76%	
<u>2. Position surveyed</u>			
Owner	3	17.65%	1.118 (0.7728)
Manager	4	23.53%	
Director	6	35.29%	
Consultant	4	23.53%	
<u>3. Incomes in 2016. (euro)</u>			
<100,000€	4	23.53%	1.529 (0.8214)
100,000-500,000€	3	17.65%	
500,000-2,000,000€	5	29.41%	
2-10,000,000€	3	17.65%	
> 10,000,000€	2	11.76%	
<u>4. The impact of risk to income in 2016</u>			
Sustainability of income	7	41.18%	0.471 (0.7904)
Reduction in income	5	29.41%	
Increase of income	5	29.41%	

More than half of the sample consists of insurance companies which are integral parts of larger institutional system, them a total of 9. Then, approximately third of the sample consists of independent private companies (a total of 6 in the sample). In the last survey question, respondents are stated whether and how various risks affect the height of their income in 2016. Slightly less than half of the respondents confirmed that the impact of different types of risks led to the sustainability of their income. On the other hand, an equal number of surveyed companies (slightly less than a third of respondents) argued that the impact of the risks highlighted in the reduction of earned income, i.e. believes that the risks affecting the increase in their income in the past year.

4.2. Methodology

The structure of the observed data, which describe the risk of financial reporting organization, is described firstly using the basic descriptive methods of statistical analysis. For this purpose, results obtained in the survey have been carried out on the basis of the responses, which are encoded with 0 (negative response), or 1 (positive response). In this way, the responses of the surveyed insurance companies, for each particular question of the survey, can be observed as the realization of independent dichotomous random variables, with (only) two possible values: 0 or 1. The ratio of these values gives accurate insight into the extent and importance of risk management, for an arbitrary kind of risk and interviewed company, individually. On the other hand, the data related to the actual income of insurance companies (third feature in Table 3) are of particular importance in this study. Therefore, these responses of surveyed companies are observed as dependent variables, and structured so that they can be quantitatively expressed as numerical values, i.e. scores from 1 to 5. In the next step, a qualitative interpretation of the obtained responses has been analyzed using a model of *Multiple Regression Analysis*. The main objective of this analysis is to describe the connection between one output (dependent) variables Y and two or more input (independent) variables X_1, X_2, \dots, X_k . For their computation, it has

been used the original program code, i.e. some original programming procedures created in statistically-oriented, programming language "R". The basis for the practical implementation of these procedures gives the so-called glm-function which is a part of the so-called Stats-package. In this way, it allows finding the estimated values of regression coefficients in the case of more complexes, general regression models, as well as determining the quality of the obtained model. For this purpose, degree of agreement between the regression model (1) and observed data, obtained from the sample of insurance companies, was tested using the following quantitative indicators:

- *Standard estimation error (SEE or Q)* represents an average of the squares of the differences between empirical and estimated ("fitted") data, obtained by the regression analysis.
- *Aikike's Information Criterion (AIC)* is a general quantitative indicator of the fitting between some obtained theoretical model, in comparison to the observed empirical data set (Burnham & Anderson, 2002).
- *Fisher's (F) statistics* is the ratio of two sample variances. According to well-known connection between multi-way Analysis of variance (ANOVA) models and linear regression with dichotomous variables (Markowski and Markowski, 1990), one can use *F*-statistics to comparison of two (or more) variances, i.e. to determine the relevance of the each individual variable in the multiple regression models.

4.3. Key findings

The structure of the observed data, which describe the effect of the risk of financial reporting, firstly is expressed by the basic descriptive statistical analysis methods, as is shown in Table 4. It contains the basic statistics related to this areas of risk, which consists of four dichotomous variables X_1, X_2, X_3, X_4 . Note that the highest number of positive respondents' answers is in the case of variable X_2 , i.e. more than half of them said yes to the question about the impact of the risk occurring lack of reporting established by the auditor. Then, with a slightly smaller number of affirmative answers follows variables X_1 , where is slightly less than a quarter of those surveyed legal entities confirmed that the impact of risks to the lack of internal reporting. Finally, only a minority of them points out to the risk of lack of reporting which is determined by the competent institution.

Table 4: The number of observations, the mean value and standard deviation of various risk areas of risk reporting.

Variables	Areas of risk reporting	Number of companies	Proportion (p)	Standard deviation
X_1	Disadvantages of internal reporting	4	0.2353	0.4242
X_2	Deficiencies of reporting defined by auditor	10	0.5882	0.4922
X_3	Disadvantages of reporting confirmed by the competent institution	2	0.1176	0.3222
X_4	Other	1	0.0588	0.2353

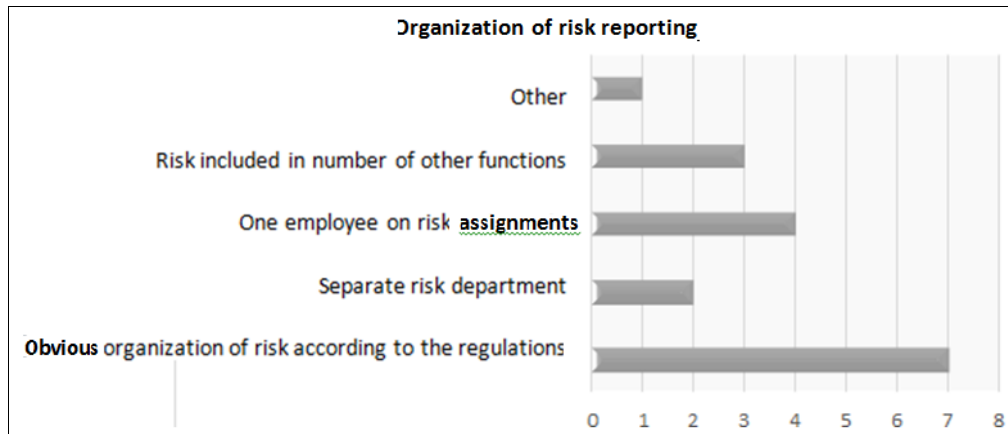
The multiple regression analysis of the dichotomous variables which describe structure responses of respondents in the areas of risk the lack of reporting was carried out in relation to the total income of the surveyed insurance companies in 2016. Table 5 gives the values of the regression coefficients, together with the F-values and corresponding standard errors of estimation. Notice that from-regression statistical analysis variable X_4 was omitted, due to the

small number of the observed values. A positive correlation exists with the variables X_1 and X_2 , which describe the effects of the lack of internal reporting risk and risk established by the auditor. On the other hand, the risk of lack of reporting established by the competent institution (variable X_3) has a negative impact on income level of surveyed insurance companies. The greatest value of the estimated coefficient of linear regression has a variable X_2 , i.e. management of this risk largely contributes to the increase of income of the surveyed insurance companies. In addition, a positive impact on the business of insurance-sized enterprises has variable X_1 , although it is important to note that its value is much lower. Thus, this kind of risk of financial reporting is not affected to a significant degree for incomes and business activities of the companies. Finally, based on a relatively small values of $Q = 0.1363$ and $AIC = 6.4212$ can be concluded that the obtained regression model has a high degree of agreement with the empirical data. Finally, Fisher's F-statistic has also a relative small value ($F = 0.8808$) which indicates that there is no significant difference detected between the variances of different kind of financial reporting risks (p -values $0.4764 > 0.05$).

Table 5: Estimated value of the regression coefficients

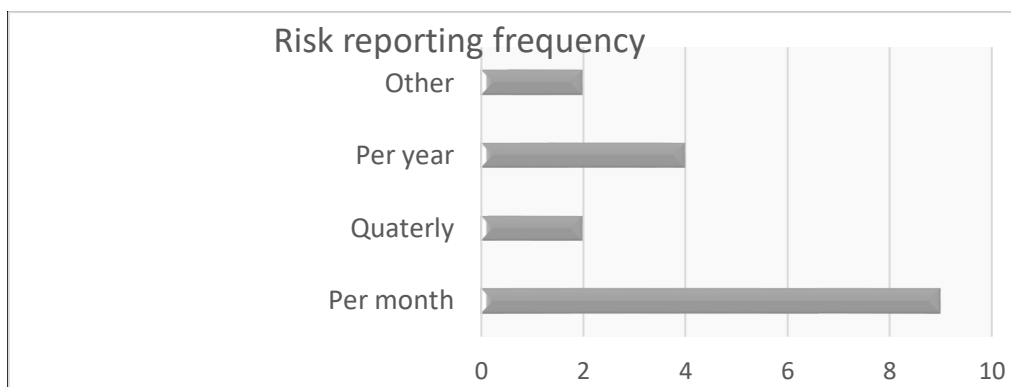
Variables	Areas of risk reporting	Regression coefficient	F-values	Standard errors
<i>Intercept</i>		2.0000		0.1363
X_1	Disadvantages of internal reporting	0.1750	0.0006	0.1524
X_2	Deficiencies of reporting determined by auditor	1.1000	2.5521	0.1429
X_3	Disadvantages of reporting on risk determined by the competent institution	-0.5000	0.0897	0.1669
SEE (Q):		0.1363		
AIC:		6.4212		
F-statistic (p-value):		0.8808 (0.4764)		

The insurance companies have indicated what kind of organization for risk reporting is used in their operations. The largest number of respondents confirmed that use the statutory, mandatory organization of risk monitoring (Graph 3).



Graph 3: The number of positive responses of the surveyed companies on the risk management organization for reporting

The insurance companies were interviewed on the frequency of reporting on risks (Graph 4). The largest number, i.e. more than half of the surveyed companies confirmed that in this respect perform monthly reporting. Distribution of positive answers on these two characteristics of the sample is also shown in Graph 4.



Graph 4: The number of positive responses of the surveyed companies related to the frequency of reporting risk

5. DISCUSSION AND CONCLUSIONS

During the past decade, boards and top management teams at insurance companies globally have given increased attention to enterprise risk management. In the Paper is given an illustration for the insurance market in Serbia, where the drive to implement more effective organization on risk reporting is a response to greater legislative scrutiny, standards and investor concerns about volatile macroeconomic conditions. Many of these organization programs are focused on playing defense – trying to keep up with new and more demanding compliance requirements – but are less concerned with capturing the full potential value of a robust risk framework. In addition, some risk reporting programs, as the results of the provided research show, are developed without input from other functions in the organization, such as finance, product lines or sales. The result can further lead to the programs not well-grounded in organizational realities, do not achieve the desired behavioral changes, and ultimately fall short of goals for performance improvement. The responsibility for risk-adjusted performance rests with the front line and business leaders, so their compliance is essential to the success of a reporting on risk framework. To be sure, a framework cannot overcome the detrimental effects of poorly underwritten business, high costs or investments that excessively expose the capital

base; however, it can play a critical role in reinforcing risk awareness and provide the practical tools and processes to embed risk-conscious behavior in everyday decisions. Evidence suggests that organizations can create significant value by applying reporting practices, especially during market downturns, what is showed by connecting it to the income influence of the companies. The research proceeds with a discussion of the different levels of the organization of reporting on risk posed by insurers, followed by recent developments in insurers' business in Serbia, market structures, and performance. These analysis of reporting and organization of risk department give a picture of changes in insurers' investment behavior according to the regulatory framework and consider policy implications. The paper describes the elements of risk management reporting practices of insurers in the country, as well as some theoretical background to affect them better, supporting further discusses on engaging with the business and other functions of the organization to achieve high impact, as well as the benefits that can be captured, and the next frontier of reporting on risk, in which the risk function provides superior insights into business performance, enables active capital management.

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FACEBOOK OR THE “BOOK OF FACES” AS A DATABASE FOR CUSTOMER PROFILES, MARKETING COMMUNICATIONS AND APPLICATIONS

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ABSTRACT

When they are online, Facebook users themselves voluntarily enter and update information about themselves, their family members and friends. Facebook as “an open and always available Book of Faces” can be observed as an updated database of consumers’ and companies’ behaviour. Companies can use Facebook database (“Book of Faces”) in order to do research into consumer behaviour, customer relationship marketing (CRM), marketing communications and applications. Companies may carry out their personalised communications with their fans in real time, as well as initiate communications between their fans and the creation of the user generated content (UGC) about the company (by uploading positive comments, photos and so on). On the basis of Facebook applications, companies inform their fans and other interested users on Facebook about their products and events, encourage the engagement of fans (e.g. by organizing sweepstakes) for the purpose of creating the UGC and viral communications.

Keywords: *Application, Customer profiles, Database, Facebook, Marketing communications*

1. INTRODUCTION

In the digital context, organizations design digital platforms for digital business and marketing. Changes in the technological environment – the development of information-communications technologies (ICT) and changes in consumer behavior also have an influence on changes in the field of marketing. The digital environment, the economy, technologies and generally speaking the process of digitalization require changes in marketing, i.e. the digitalization of marketing activities. It does not mean that there should be the complete replacement of classical digital activities. It rather means that digital activities are only added to the existing classical ones, i.e. there is a need for a choice of a mix of classical and digital marketing activities. The choice of a combination of classical and digital activities depends on consumers (their possibilities and readiness to use certain digital technologies) and the possibilities of organizations (Rakic and Rakic, 2017).

"Throughout its evolution, consciously or mimetic, each individual chooses a model to build his personal and professional life" (Luca et al., 2016, p. 204). The online social media have transformed the face of human interaction in the 21st century. Wikis, blogs, online groups and forums, podcasts, virtual worlds and social tagging are but a few of the applications enabling innovative behaviours supportive of the acquisition, the access, the manipulation, the retrieval and the visualization of information. It is, therefore, no surprise that educational practitioners and theorists have begun to explore how the social media can be harnessed in order to describe and implement new paradigms for communication, learning and education (Wite, King and Tsang, 2011). “The web is more a social creation than a technical one” - said Tim Berners-Lee, inventor of the World Wide Web (Contreras, 2013, p. 10). This becomes particularly true with social networks like Facebook. Facebook users themselves edit their personal details –

they continually update their self-portraits. Companies can use Facebook as a base to explore the factors of consumer behaviour, consumer profiles, updated database - "Book of Faces", targeted and personalised communications and other marketing activities. Given the importance of Facebook to research consumer behaviour and marketing strategy of companies, this paper is dedicated to Facebook or Book of Faces as the base for consumer profiles and marketing strategy. The rest of the paper is organised as follows: Section 2 reviews the relevant literature on the importance of social media and in particular social networks in marketing research. Section 3 focuses on consumers' profiles - offline, online and integrated. Section 4 examines how Facebook might be used in the research of consumers' profiles and in the personalisation of marketing communications. Section 5 presents method. Section 6 briefly summarises the paper.

2. SOCIAL NETWORKS IN MARKETING RESEARCH

Social media and social networks in particular, can be used in marketing research (Branthwaite and Patterson, 2011; Kirakosyan, 2015; Mostafa, 2014; Patino, Pitta and Quinones, 2012; Pettit, 2011; Rakic and Rakic, 2015, 2017; Rettberg, 2009; Smith, 2005; Vaezi, Torkzadeh and Chang, 2005). Rettberg (2009) states that thinking of social media through the lens of technologist Tim O'Reilly (who first coined a term Web 2.0 services in 2005) rather than from the point of view of media and communications studies is valuable because it emphasises different things. This means a focus on data - both the data users contribute explicitly and the data that are implicit; that users are not aware of contributing. Users themselves enter and update information about themselves on social media. On the other hand, organisations harvest data because they can use it to sell better ads, but also in order to create better services for users.

Smith (2009) says that social platforms become research platforms. Patino, Pitta and Quinones (2012) differentiate social media as a new investigative tool in marketing research. On the other hand, social media have reduced the effectiveness of traditional market research techniques. Authors conclude that social media market research complement traditional research techniques. Branthwaite and Patterson (2011) add that electronic social media such as Twitter, Facebook, MySpace, etc. have become a major form of communication, but, they have also become a source of data for market researchers. Jay Topper, senior vice president of customer success at Rosetta Stone (according to Greengard, 2011) states: "With all the different social media components in place and a focus on market and customer research, it's like running a 24/7 focus group." In addition, Rosetta Stone culls data and runs it through analytics software to better understand customers, channels and behavior. Also, Radha Subramanyam, senior vice president of media and advertising insights and analytics at Nielsen says: "This is the world's largest focus group, the world's largest town hall. Companies that figure this out will thrive in the next 10 to 15 years. Companies that don't will fail" (Talbot, 2011, p. 47).

Authors explain that social media shift the research technique from asking to listening (Branthwaite and Patterson, 2011; Patino, Pitta and Quinones, 2012; Pettit, 2011). Consumers are the best sources of information. Before the advent of social networks and media, researches obtained information about consumers through examination, observation and experiments. However, with the advent of social networks when creating their profiles consumers themselves enter their personal information, they present themselves ("they submit data to researches"). The researches only have to "arrange" data about consumers' profiles. Authors use numerous metaphors in order to say that social media users are at the same time company researchers and very often they are not even aware of this. As Walker (2005) describes - users create "digital self-portraits". Rettberg adds that generated portraits of users are similar in many ways, but are to a greater extent controlled by commercial interests and limited by the strict templates applied to data of users. In this mass customisation, each individual is fed into the same template, so, in a sense, this is a partial return to mass media. Each Internet user creates a "digital footprint"

(Greysen, Kind and Chretien, 2010; Madden, 2008). This footprint is visible to others and may have unintended consequences. Also, metaphorically speaking, social media are a mirror. As Greysen, Kind and Chretien (2010) explain - much like a mirror, social media can reflect the best and worst aspects of the content placed before it for all to see. Also, social media can act as a mirror reflecting intimate thoughts and behaviours back to oneself as well as to others around the world. The group of authors (Bocconi et al., 2015) present the “Social Glass” – a platform for urban analytics and decision-making through heterogeneous social data. The platform systematically combines publicly available social datasets from municipalities together with the social media streams (e.g. Twitter, Instagram and Foursquare) and resources from knowledge repositories. It further enables the mapping of demographic information, human movement patterns, the popularity of a place, traffic conditions as well as citizens’ and visitors’ opinions and preferences with regard to specific venues in the city. Active users of social media continually update information about themselves and thus offer the opportunity to researchers to have a current database. As Smith (2009) notices social media impact the rise of real data - as users publish their opinions, they leave a trail of data. These data are worth money, and the rise of buzz tracking tools, which track consumers’ opinion on the web, and analytics explain that the study of consumers’ behaviour becomes a big business. There will, however, be an increasing need to put research behind these data to understand why these things happen. On the basis of tracking (Segbers, 2010), listening (Murray, 2010) and looking (Murray, 2010) of consumers through social media, a company can conduct marketing research. One of the most effective ways to find out what consumers are talking about their experience in a company is to track what they are saying on social media (Segbers, 2010). Murray (2010, p. 16) suggests listening to where the conversations about company are taking place, looking everywhere for conversations and paying close attention to the dialogue. What is the general consensus about brand? Are consumers asking questions? Do they need help, are they posting reviews, or are they suggesting improvements to current product or service? Do they swap stories and testimonials with friends about their experiences with company? Segbers (2010) suggests to start out by using the medium to simply listen (read) and find out what is being said about organisation, and to use tools like Google Reader and Google Alerts that will constantly check news sites and blogs and send them to inbox (of the organisation) as well as keyword tracking tools like Twitter Search and Technorati. Social networks allow organizations to track customer sentiment, customer service problems and dissatisfaction in their customer base (Pookulangara and Koesler, 2011). In addition to the research of consumers, social media enable the research of competitors, employees and many stakeholders. As Brennan (2010) proposes, companies can also investigate, follow, and monitor their clients and competitors. Additional opportunity is the research of employees – prospecting and existing (2010). Employers can use social media tools to investigate and interact with prospective employees. Also, employers can use social media tools for monitoring behaviour of employees and improving internal communications. But, stakeholders have access to the same digital technologies, too. Understanding the impact of corporate information publicly distributed on the Web is becoming more and more crucial. Even by considering a small fraction of the available online data through social networks, it is possible to discover accurate information about an organisation, its structure and the factors that characterise the social reach of their employees (Bozzon et al., 2014).

So, the company, through social media, may conduct research studies of:

- consumers - collecting information from users of the product,
- location of potential consumers,
- the image of the company and competitors,
- communication and the activities of competitors,
- stakeholders.

Survey results - "listening" and "observing" social media users can be the basis for:

- determination of the profile of end users and procurement managers in the business market (Figure 1),
- analysis of the marketing mix adjustment to the customer demands and changes in the environment,
- ideas on new target groups, products, packaging, communications and other marketing activities.

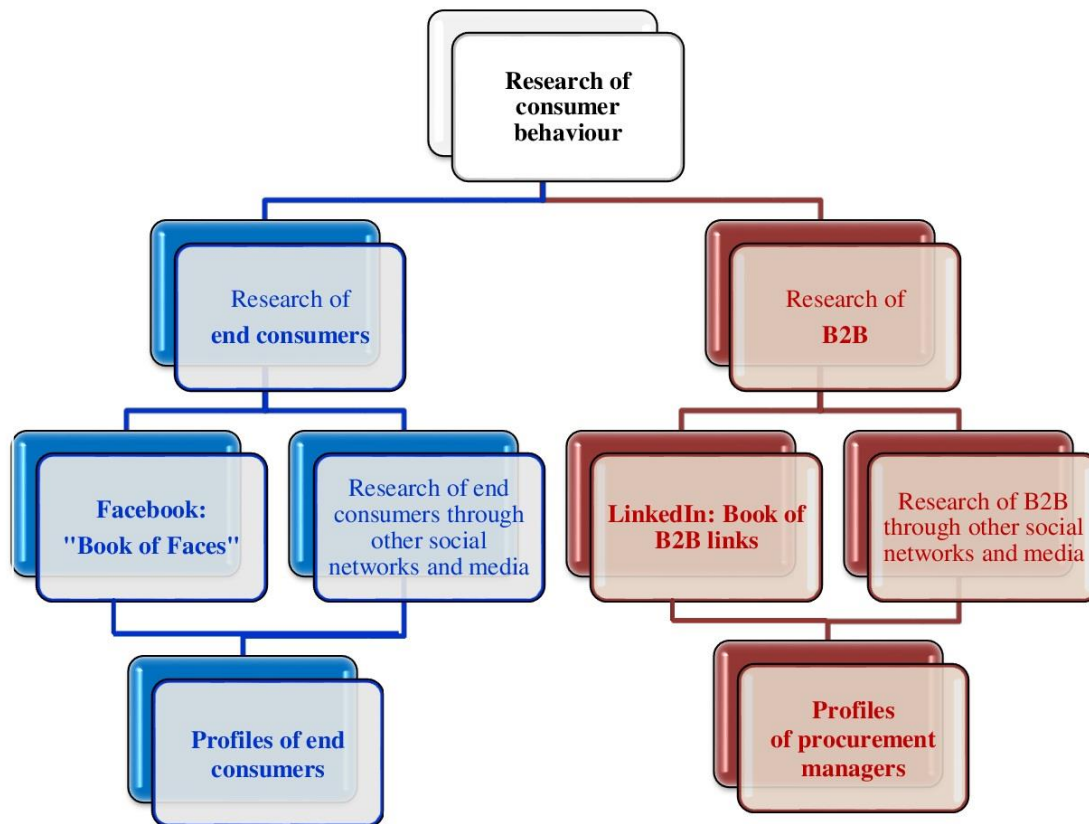


Figure 1: The research of consumer behaviour and the determination of consumers' profiles through social media

Thus, for example, Facebook becomes a "Book of faces" - "Book of consumers" ("Book of faces"), LinkedIn becomes a "Book of links to business-B2B Market" ("Book of B2B links"), Twitter provides an overview of the contents that users are interested in etc. The research of consumers' behavior through social networks has weaknesses. First, consumers of products of the company do not need to be members of social networks. Other weaknesses of the research of consumers' profiles through social networks are:

- consumers can share only the data that they want,
- the data may be inaccurate, insufficient and incomplete.

3. INTEGRATED CUSTOMER PROFILE

The results of marketing research are consumers' profiles as a basis for marketing strategy. Given that consumers use different channels - online - and offline - an integrated approach is necessary.

IBM (2011) suggests integrating web and non-web data sources and building an integrated, real-time customer profile that includes:

- Behavioural data, such as keywords, search terms, click-through conversions, and click streams that can be culled from customer engagement with company's site, historically, and in real time.
- Customer data from traditional marketing data sources;
- Cross-channel campaign and response data;
- Usage data, such as history, orders, transactions, payment history, and more (Figure 2).

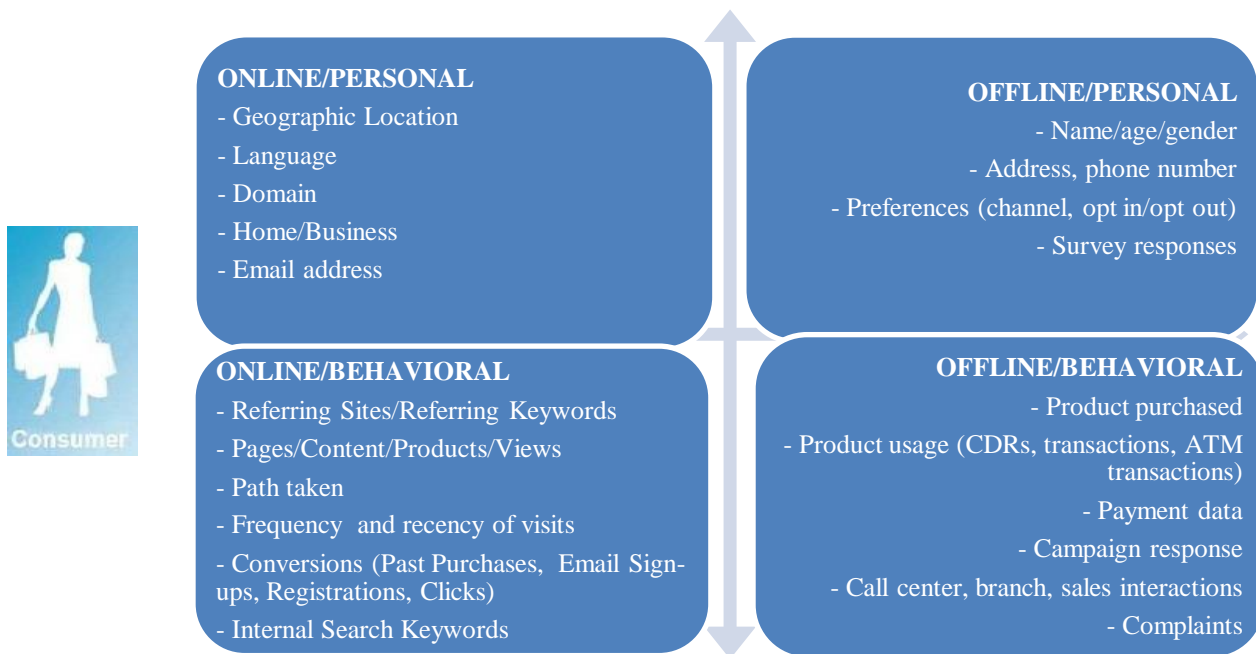


Figure 2: Building a customer profile.
Source: IBM, 2011: 3.

Lovett (2011) introduces the concept of a “True Profile” as a mean to understand customer behaviour, actions and preferences using analytics, thereby creating a foundation for intelligent marketing (Figure 3). A contemporary method for managing customer data suggested by Lovett consists of four key components: capturing customer data, analysing customer behaviour, deciphering customer intent and turning predicted intent into marketing as a science. As Lovett explains: “customer data sources include: traditional CRM (Customer Relationship Management) databases, marketing contact and response information, sales force automation records, financial transaction histories, web analytics data and social media mentions, just to name a few.”

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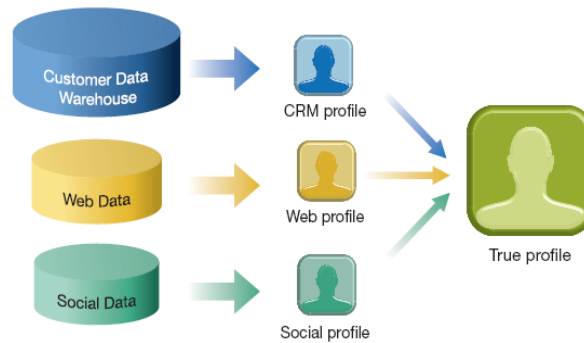


Figure 3: Data Integration Reveals the True Profile (Lovett, 2011, p. 3)

4. THE FACEBOOK PROFILE IN THE RESEARCH INTO CONSUMERS' PROFILES, THE PERSONALISATION OF MARKETING COMMUNICATIONS AND APPLICATIONS

Willems (2011, p. 2) names some of the biggest IT firms in the world: Apple, Google, Microsoft and Facebook which are directly involved in building up customer profiles. "Apple has its iTunes store, where it collects customer data and serves as intermediary to other companies selling music and apps. Google's entire business model is built around collecting customer profiles through its free search engine and through Picasa, Google Docs and Android. Microsoft has long been investing in collecting customer profile data with free initiatives like Hotmail, Skype, Bing and MSN Messenger. And Facebook is quickly catching up with the other three dominant IT players offering a free social platform to share all kind of personal data with your friends. Social media collect personal data both directly (asking for name, email address, job title, date of birth etc.) and indirectly (measuring usage frequency, geo-location, keywords used, friends you are connected with and so on). "In fact, they construct a profile for each online visitor." Willems adds that the added value of Facebook, Google and others is targeted advertising to targeted audience. Because of many social media benefits, Willems suggests that each company builds its own miniature version of Facebook. One of his suggestions is that a company sets up an online forum where customers come together to share best practices, ideas and other relevant information with each other, keeping each other constantly up-to-date on new developments in their business (and personal) lives. Company, as the owner of this forum, could control the entire information flow and track each individual's behaviour. "Facebook started as a handful of college students, but now it is a representative sample of the population" (HubSpot, 2012, p. 30) and because of this it is important while researching consumers' behaviour. On Facebook individuals and companies enter voluntarily information about themselves. By researching Facebook, companies can gather many facts about their customers. Figure 4 shows facts from Facebook template which users can edit themselves and opportunities for companies in order to determinate factors affecting consumer behaviour and the profiles of consumers. Based on the Facebook users' data who are current or potential consumers, companies can determine geographic, demographic, social, psychological and behavioural factors of consumer behaviour. Template of Facebook offers to a company many opportunities to determine the lifestyles of its customers. It is of particular importance to be in a position to research the preferences of Facebook users towards a specific content, based on their "clicking" buttons such as: Like, Comment and Share. Companies can also monitor additional engagement of fans - whether, how and how much fans "talk about" news feed content; and whether they participate in the amplification - spreading news feed content to friends. While exploring "Facebook factor" Sverdlov (2012) lists three customer life-cycle metrics: purchase, consideration, or recommendation. Facebook offers opportunity to companies to research Facebook users as customers.

Figure 4: Facebook or “Book of Faces” as the Database for Customer Profiles and Marketing Communications (Template for users on Facebook)

Template with which Facebook users arrange their personal data themselves	Opportunities for companies to determine the factors of consumer behaviour and consumers’ profiles
Basic information <u>Current City:</u> <u>Hometown:</u> <u>I Am:</u> - Female - Male <u>Birthday:</u> <u>Interested In:</u> - Women - Men <u>Languages:</u> <u>About Me:</u>	Geographic factors Sex - Demographic factors Age - Demographic factors Personality and self-concept- Psychological factors Culture – Social factors Personality and self-concept - Social factors Beliefs and attitudes - Psychological factors
Profile Picture Friends and Family <u>Relationship Status:</u> (Select Relation): Single; In a relationship; Engaged; Married; It’s complicated; In an open relationship; Widowed; Separated; Divorced <u>Family:</u> (Select Relation) /Add another family: member/ Wife; Husband; Sister; Brother; Mother; Father; Daughter; Son; Aunt; Uncle; Niece; Nephew; Cousin (female); Cousin (male); Grandmother; Grandfather; Granddaughter; Grandson; Stepsister; Stepbrother; Stepmother; Stepfather; Stepdaughter; Stepson; Sister-in-law; Brother-in-law; Mother-in-law; Father-in-law; Daughter-in-law <u>Friends:</u>	Personality and self-concept - Psychological factors Reference groups and Family - Social Factors Family - Social factors Reference groups - Social factors
Education and Work <u>Employer:</u> Where have you worked? <u>College/University:</u> Where did you go to college/university? <u>High School:</u> Where did you go to high school?	Occupation – Demographic factors Education – Demographic factors
Philosophy <u>Religion:</u> What are your religious beliefs? <u>Description:</u> <u>Political Views:</u> What are your political beliefs? <u>Description:</u> <u>People Who Inspire You:</u> Who inspires you? <u>Favorite Quotations:</u>	Culture - Social factors Beliefs and attitudes - Psychological factors
Arts and Entertainment <u>Music:</u> What music do you like? <u>Books:</u> What books do you like? <u>Movies:</u> What movies do you like? <u>Television:</u> What TV shows do you like? <u>Games:</u> What games do you like?	Lifestyle - Social factors
Sports <u>Favorite Sports:</u> What are your favorite sports? <u>Favorite Teams:</u> What are your favorite sports teams? <u>Favorite Athletes:</u> What are your favorite athletes?	Lifestyle - Social factors
Activities and Interests <u>Activities:</u> What do you like to do? <u>Interests:</u> What are your interests?	Lifestyle - Social factors
Contact Information <u>Emails:</u> <u>Mobile phones:</u> <u>Other Phones:</u> - Work -Home <u>IM Screen Names:</u> <u>Address:</u> <u>City/Town:</u> <u>Zip:</u> <u>Neighborhood:</u> <u>Website:</u> Who can see this contact info on your profile?	Contact Information Opportunities for collecting data of individuals
Additional information about behaviour - Behaviour on Brand Page Like Comment Share - Engagement* - fans “talk about” news feed content - Amplification* - news feed content spreads to friends - Users of Facebook as customers - three customer life-cycle metrics**: purchase, consideration, or recommendation	Behavioral factors

* Lipsman et al., 2012 / ** Sverdlov, 2012.

“Facebook becomes the online customer information system” and the largest online “CRM” system (Willems, 2011, p. 4). Individuals, voluntarily and in real time edit their profiles which are therefore up to date. Figure 5 shows differences between traditional and Facebook CRM.

	Traditional CRM	Facebook CRM
Profile building	Offline	Online
Ownership	Marketing / Sales	Customer
Focus	Internal use	External use / “display”
Market	Both B2C and B2B	B2C mainly
Type of usage	Obligatory	Voluntarily
Level of detail	Demographics	Demographics, behavioral details and social graph
Frequency	Batch / depends on willingness of sales rep	Real time, semi-automated or depends on willingness of user
Ability to influence peers	No	Yes, using the Social Graph
Ability to share data	Limited, as it creates information silos at the team or department level	Limited, as it creates an engagement lock-in since data are kept and controlled by Facebook

Figure 5: Differences between traditional and Facebook CRM (Willems, 2011, p. 5)

All Facebook users are not of equal importance for the marketing activities of companies. Lipsman (et al., 2011) distinguishes a few different types of user segments within Facebook. Authors identify the following audience segments:

- *Fans* - This user segment is based on users who have affirmatively stated their affinity for a particular brand by “liking” that brand.
- *Friends of Fans* - This user segment is defined as those who are not explicitly brand fans but who are exposed to brand impressions through a friend who *is* a fan of a particular brand.
- *Non-Fans* - This segment encompasses all users of the social network who have neither become fans of a particular brand, nor are they connected to a fan (Lipsman et al., 2011, p. 6).

This distinction is important because the results of the research (Lipsman et al., 2011, p. 2) show that in the case of some brands, Facebook fans may have different aggregate demographic and behavioural profiles than typical brand purchasers, indicating that social media may require different approaches to marketing strategy. Also, the “value of a fan” can be assessed in three primary ways: increasing the depth of engagement and loyalty among fans, generating incremental purchase behaviour, and leveraging the ability to influence friends of fans.

Forrester (Sverdlov, 2012) has researched the impact of a Facebook fan on brand interactions, or how fans are more likely to interact with brands than non-fans and how engaging with the brand on Facebook affects the likelihood of three events: purchase, consideration, and recommendation of a brand. Forrester call this the “Facebook factor”. They found that:

- Facebook fans are much more likely to purchase, consider, and recommend brands.
- Facebook “fandom” has the largest impact on purchase.
- The value in Facebook fan base is in their willingness to recommend.
- It follows that Facebook fans are brand advocates. Also, they (Forrester, according to Sverdlov) recommend companies to leverage Facebook impact to drive fans through customer life cycle.

Facebook represents a good platform for the development of applications. Today’s Web applications are often compositions of distributed yet interconnected services that offer features and data through defined interfaces via standardized protocols. Providing a set of the best practices for organizing and utilizing distributed capabilities, the service-oriented architecture

design pattern largely contributed to this trend. To react on emerging customer requirements, using an agile methodology for Web application development fits well in this context. While it allows promptly responding to change by adjusting the Web application architecture, security must be applied as a holistic approach throughout the entire Web application's lifecycle. There is a need for a flexible, expressive and easy-to-use way to model a Web application's architecture, putting a strong emphasis on security (Wild and Gaedke, 2014). The development of Web applications has several characteristics that differ from the development of other kinds of applications. On the one hand, many different kinds of stakeholders participate in the development process: analysts, customers, users, graphical designers, marketing, multimedia and security experts etc. On the other hand, the main features of these systems are the navigational structure, the user interface and the personalization capability (Escalona and Koch, 2004).

5. METHOD

Primary data were collected through the observation of profiles on Facebook page of travel agency Kon Tiki Travel from Serbia. This agency has been chosen because the representatives of Kon Tiki are regularly - daily active on their Facebook page. Kon Tiki adds content - photos, information and highlights from travels, "the most interesting thing of a day"; encourages the engagement of Facebook users - asks interesting questions; organises competitions (e.g. current competition is a Kon Tiki photo contest: Destination in pictures and words – the best photos from travels is being chosen, and the prize for the best photo is a travel free of charge); it also informs Facebook users about the TV show "The World in Your Palm," and after the show asks about their impressions, answers questions, replies to their comments, remarks etc. Kon Tiki Travel has several Facebook applications (Last minute, Kon Tiki Klub, Cruising etc.).

6. RESULTS AND CONCLUSIONS

Looking at the profiles of Facebook we can conclude that users do not enter all information about themselves through Facebook template, they update data in different periods of time and they are not all equally active. Mostly they enter geographic and demographic characteristics. In addition, they are ready to show their interests, activities, and thus indirectly reveal their lifestyle. By displaying photos – of themselves and of their friends, they further "reveal" themselves. The company, through geographic, demographic, social and behavioural data can determine the profiles of its customers, it can direct marketing communications, update the content which corresponds to the interests of the users in order to incite their activities (such as Like, Comment, Share; entering user-generated content etc.). All of the above allows Facebook CRM, converting Facebook users into friends of the company and personalised marketing communications. Facebook users themselves create online and update information about themselves, their family, friends, work. That is, Facebook users create and update their profiles. These profiles can be seen by a company as consumers' profiles. Of course, all Facebook users are not current or potential consumers of the company's brands. It follows that company needs information about users of Facebook who are also consumers of a particular brand. As Brennan (2010) states, most top brands have Facebook group and/or fan pages. Company pages on Facebook (as the above mentioned Kon Tiki) allow the research of consumers' behaviour, profiles and customers' satisfaction and they also allow communication in real time.

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WORKING CONDITIONS AS KEY DRIVERS OF ECONOMIC GROWTH: EMPIRICAL EVIDENCE FOR EUROPE

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ABSTRACT

The paper focuses on designing a general framework of analysis for the working conditions in Europe, as main drivers of economic growth, with a decisive contribution to the increase in GDP per person employed. The economic literature attests a tight interdependence between job quality, mainly reflected through the working environment, work intensity, working program, skills, earnings or job difficulty and the labour productivity, job satisfaction, respectively performance and economic growth. Therefore, we have developed a complex cluster analysis based on the Ward method and Euclidian distance that allowed for a proper grouping of EU-28 countries according to the outcomes resulted on three job quality indices. Furthermore, we configured six macroeconomic models processed through the correlated panels corrected standard error method of estimation (PCSE) and OLS in order to assess the impact of various measures of the working conditions upon the GDP per person employed. The results of the cluster analysis point out that Central and Eastern European countries tend to have a less flexible working program but with more hours worked and increased job difficulty compared to the other Member States, while the estimation results for the job quality impact models upon GDP per person employed highlight important positive effects of all four job quality dimensions considered as explanatory variables (fixed program, tight deadlines, paid training, job prospects), reflected in terms of significant improvements in the level of GDP per person employed for the 28 panel considered economies.

Keywords: *Economic growth, Job quality, Productivity, Working conditions, Welfare.*

1. INTRODUCTION

The general portrait of the workforce in Europe in terms of employment situation and status, workplace conditions and performance, educational level and job quality offsets the fact that in 2015 there were 221 million persons employed within the European Union (EU-28) and 259 million persons overall the 35 countries considered by the sixth European Working Conditions Survey (EWCS) that also covers economies outside the EU, like Norway, Switzerland, Turkey, Serbia and others, respectively about 150 million employed people in the United States. At the same time, during 2005-2015 there has been a slight increase in part-time employment among the EU Member States, with a continuous upward trend observed both among men and women., even though the share of women with flexible contractual arrangements being three times much larger than of men (Eurofound, 6th EWCS). Moreover, a decisive share (73%) is given by permanent employees, while 15% are self-employed and 12% have temporary contracts. In Romania, the self-employment, the temporary employees (1.5% in the total number of employees in 2014), and the part-time employees (over 8% in 2014) registered a decreasing trend starting with 2001 (Marcu et al., 2015, pp. 1541-1542). Thus, even though there have been major global changes and transformations, working conditions are still under the so-called 'standard employment relations', involving a full-time relationship that guarantees workers with a high level of income and employment security in the labour market.

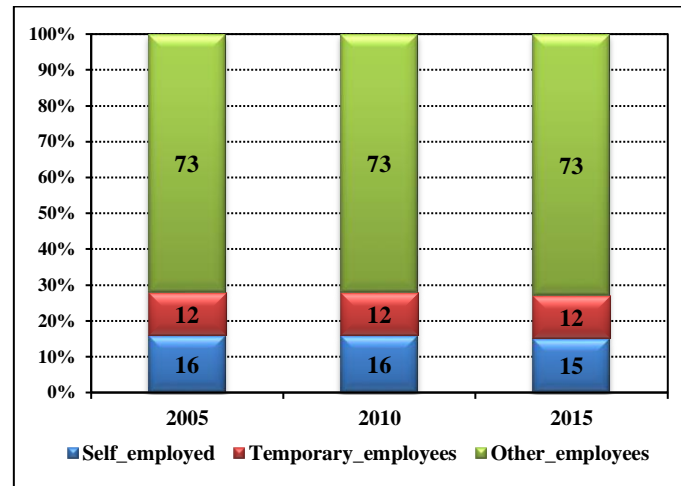


Figure 1: Employment status in Europe according to the EWCS, 2005-2015 (%)

Source: own process of Eurofound, EWCS data

The educational level of EU-28 employees has significantly increased during the last decade, especially towards tertiary education (from 25% in 2005 to 33% in 2015), while the share of the workforce with primary education has decreased from 25% to 18% during the same period (Eurofound, 6th EWCS).

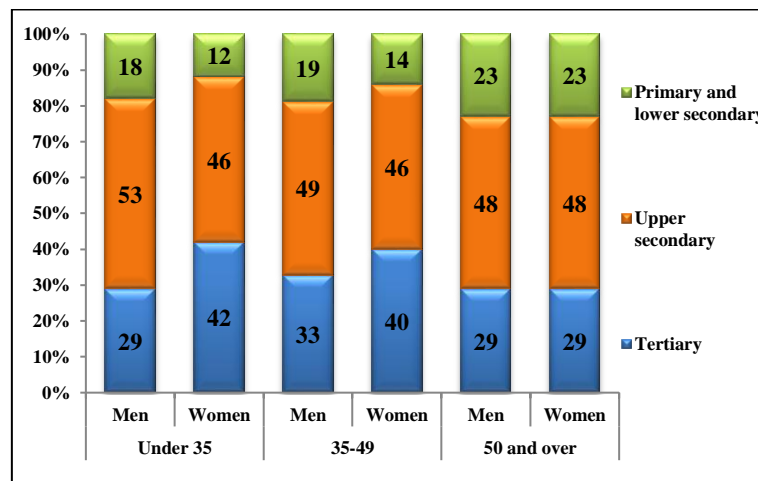


Figure 2: Educational level of employees by age and gender, according to the EWCS, 2015 (%)

Source: own process of Eurofound, EWCS data

Therefore, European employment strategies focus on job quality as a core element used to boost economic growth towards the objectives set within the framework of Europe 2020 agenda (centred on achieving smart, sustainable and inclusive growth). Moreover, ensuring job quality makes work sustainable and leads to maintaining workers actively involved into the labour market for longer periods of time. Taking into consideration all these aspects, the research conducted within the paper aims to analyse the workers' performance according to specific job quality dimensions and to hereby form cluster of EU-28 countries based on these outcomes, as well as to further assess the impact of various working conditions measures upon the GDP per person employed. The paper is structured on four main sections, respectively the first part briefly describes the 2015 general portrait of the workforce in Europe and its transformations during the last decade, while the second section reveals the most important theories related to

the importance of working conditions and job quality for labour productivity, performance and economic growth. The last two sections detail the methodology, data and empirical results of the performed study, focusing on forming clusters according to the performance achieved by the EU Member States under three job quality indices, as well as their impact upon the GDP per person employed.

2. LITERATURE REVIEW

The economic literature highlights numerous theories that relate working conditions and job quality with labour productivity, job satisfaction and economic growth. The general dimensions of job quality include the working environment/ conditions, work intensity, the quality of working time, skills, earnings, social environment and career prospects. Therefore, the conditions under which an employee is completing his job vary significantly from one sector to another, as well as from a country to the other, ranging from extremely difficult and sometimes dangerous to worker's health and wellbeing to completely comfortable jobs (Bakotic and Babic, 2013). Awan and Tahir (2015) highlight that the environment where workers perform their tasks collectively in order to achieve overall firm objectives defines the working context. Moreover, the working environment implies a certain physical location of a particular job from a geographical point of view, as well as all the instruments and machineries used by workers in order to perform their job tasks (Mutia and Sikalieh, 2014). Economic globalization has brought important new features to the working environment dimension since the strong interdependencies between countries and increased values and volumes of international trade and investment have significantly shaped the way in which a firm operates on the global market, inducing behavioural and structural changes of labour markets. As a result, due to the exposure to international markets and intensified competition, firms tend to pay more attention to local working conditions in order to increase labour productivity with a positive spillover on firm's outcomes. Thus, a specific focus is given both to wages and non-wage working conditions, such as compulsory overtime, abusive supervisors, absence of written contracts, health and safety conditions, union representation, family benefits or childcare. Within this perspective, some empirical studies show that jobs in unfavourable non-financial working conditions must be balanced through higher wages due to a positive correlation between the two dimensions of the working environment (World Bank, 2008). Recent studies (Noble, 2003; Taiwo, 2010; Ali et al., 2013) tend to focus on analysing the interdependence between the working conditions/ environment and labour productivity (generally measured through the output produced by a worker over a certain period of time), with a further impact upon firm's performance and overall economic growth. Firms benefit from increased employee productivity through an enhance of their profits that could be further reflected in higher employees' wages, thus returning as an advantage to the employee. Labour productivity is mainly related to acquiring new skills, however a large part of its variations is due to the working conditions in which the employee is performing his work tasks (as shown, for example, by Akinyele, 2007 and Taiwo, 2010). In this perspective, the specific ways in which an employee shares his knowledge within the firm/ organization largely depend on its wellbeing and general conditions of the work environment. Hence, improved working conditions lead to increased work effectiveness and labour productivity, these two factors being essential for firms' survival and growth. Furthermore, being strongly interconnected, all these shaping factors contribute to the general welfare of a nation, since labour is the most dynamic of all the factors engaged for obtaining the socio-economic wealth of a country (Taiwo, 2010). On the other hand, the working environment is comprised of three major components, namely the human environment, the technical environment and the organizational environment (Opperman, 2002), all of these being fundamental pillars for the proper development of an employee at his workplace. Moreover, according to Kyko (2005) these components further define the nature/ type of the working

environment towards conducive (favourable working conditions granted to employees and improved job quality that allow for an adequate personal and professional development) or toxic work (providing unfavourable working conditions and unpleasant experiences that could lead to acquiring negative traits and bad changes in the employee's behaviour).

3. DATA AND METHODOLOGY

Numerous studies consider some of the seven dimensions of job quality mainly related to the working environment and associated conditions, work intensity, the quality of working time, skills, earnings, social environment and job prospects. The main objective pursued by most job quality studies is to assess how workers do their work and under what conditions. In this respect, within the performed empirical analysis we've focused on three main job quality indices including the *working time* (number of hours worked per week, working programme/ hours flexibility in terms of fixed program or same hours worked every week, work at night), *physical factors* (job difficulty), respectively *skills, training and career prospects* (paid training, difficulty in finding a job). Therefore, we've used the new and complex set of data and information compiled by Eurofound through its sixth European working conditions survey (EWCS) performed in 2015. The data were gathered by Eurofound in cooperation with Ipsos during February-September 2015, more than 43,000 workers (almost 44,000) being interviewed, thus covering 35 European countries (approximately 1000 to 3000 persons in every country). More precisely, the sixth EWCS study includes workers from EU-28 plus Switzerland, Norway, Albania, Macedonia, Montenegro, Serbia and Turkey. The data series were then completed by using the Eurostat database, EU LFS (Labour Force Survey). In order to ensure a proper comparability of data between countries, respectively to remove the variations and associated differences, in the first stage of the performed research we've standardised the indicators, this method allowing to develop a composite indicator calculated according to the following formula (OECD 2005; Chung 2012, p. 167): $y_i = \frac{x_i - mean}{sd}$, where

x_i represents the crude value of the indicator, and sd is the standard deviation. The standardisation method allows for a rigorous analysis of the indicators score obtained for each country by reporting to the scores of the other countries included in the panel. Thus, by using the compounded indicators we can better assess the relationship and interdependencies between the three dimensions of job quality (working conditions) considered within the paper.

Through the standardization procedure according to the average mean and standard deviation across countries and indicators, we obtained a reordering of values thus being able to make comparisons between countries.

Cluster forming and analysis was performed based on the standardised values of the working conditions indicators, by using the *Ward method (wardlinkage)* for hierarchical clusters. This method attests that the distance between two clusters A and B is given by how much the sum of squares will increase when they are cumulated. In the case of hierarchical clustering, the sum of squares starts from zero, due to the fact that each point is placed within its own cluster, and increases as the clusters are combined. The Ward method keeps this increase to the lowest possible level. Moreover, we measure the Euclidian distance between the subjects. When the Euclidian distance is being used, the measurement scale of considered variables represents an important element for the performed analysis, due to the fact that if we change the scale it will obviously modify the distance between subjects. Furthermore, if a variable has a wider range of variation compared to the others, it will tend to dominate. Thus, in order to ensure a precise and accurate research, each variable has been standardised, not without limitations though, because the standardisation method tends to reduce the variability (distance) between clusters (Cornish, 2007, p. 2).

4. RESULTS AND DISCUSSIONS

Our empirical analysis started with cluster forming and grouping of EU-28 countries according to the performance achieved by their employees *on three basic dimensions of the work environment*, respectively the *working time*, *physical factors* and *skills, training and career prospects*. The correlation matrixes of all the indicators used within this context as proxies for specific working conditions are presented in figure 3.

For the *working time dimension* we took into account four features related to the number of hours usually worked per week by an employee within its paid job, the number of hours worked at night, the flexibility of the working program in terms of fixed program (fixed starting and finishing times) and same number of hours worked every week. However, in the cluster forming and analysis we've further centred on two elements, namely hours worked (HW) and fixed program (FP).

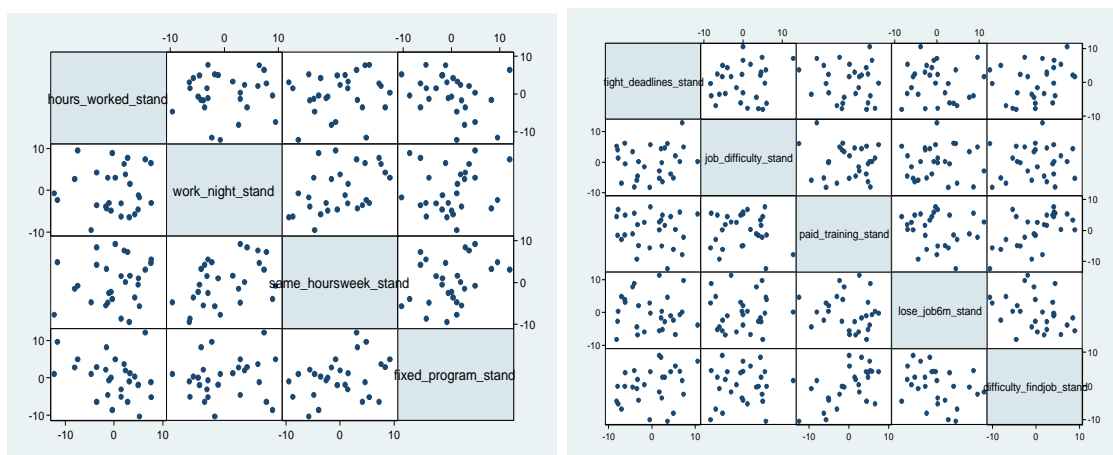


Figure 3: Correlation matrixes of the indicators used for cluster analysis

Source: own process of Eurofound, EWCS data

In terms of the *physical factors* influencing the work performed by the employees within their organizations we've focused on job difficulty (JD), namely if the job involves carrying or moving heavy loads. Moreover, for the *skills, training and career prospects* dimension we've used the attendance to trainings paid (PT) for the employees by their employers along with the difficulty in finding a job (DIFJ - the prospects of finding a job with similar wage if the employee would lose or quit his current job). The results obtained after processing the EWCS data in terms of cluster forming according to the Ward method are synthesised in table 1.

Table 1. Cluster analysis results for the assessment of job quality dimensions at EU-28 level

Indicator	Cluster 1			Cluster 2			Cluster 3			Cluster 4			F	R-sq
	N	mean	sd	N	mean	sd	N	mean	sd	N	mean	sd		
<i>Working time</i>														
HW	14	0.726	1.826	7	5.872	1.342	5	-5.487	2.159	2	-11.92	0.433	74.90***	0.903
FP	4	0.664	6.266	9	3.100	4.827	11	-2.530	5.138	4	-0.681	3.020	2.157	0.212
<i>Physical factors</i>														
JD	9	-0.227	1.466	9	4.896	0.886	9	-6.093	1.502	1	12.83	-	137.7***	0.945
<i>Skills, training and career prospects</i>														
PT	12	0.194	2.104	9	5.490	1.044	6	-6.554	1.744	1	-12.41	-	75.28***	0.903
DIFJ	4	7.584	1.416	9	3.224	1.093	11	-2.164	2.024	4	-8.886	1.718	84.52***	0.913

Source: authors' research

In order to cover for the working time features and usual program of an employee, the two questions addressed within the study were: (i) how many hours do you usually work per week

in your current paid job? and (ii) do you have fixed starting and finishing hours in your working program?

The graphical mapping representation of the working time dimension reveals important differences across Europe and between the EU-28 Member States in terms of the working hours and flexibility. There are countries with highest number of hours worked in the framework of fixed program (such as Finland or France), while others tend to focus on flexible arrangements in terms of starting and finishing times at work with a reduced number of hours worked (namely countries in Central and Eastern Europe).

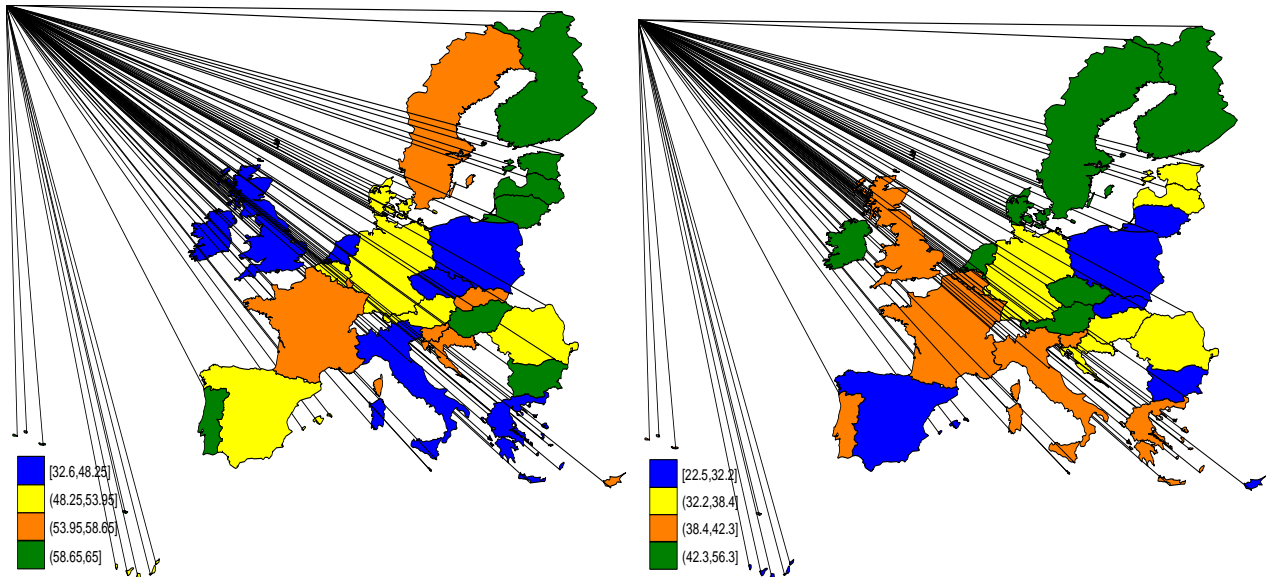


Figure 4: Weekly hours worked (left) and fixed program (right) within the European Union

Source: own process of panel data

Based on the answers given by employees all across Europe and compiled by Eurofound into the sixth EWCS study we've performed the cluster forming and analysis by using the Ward method specific for hierarchical clusters, that allowed us to identify four main clusters of EU-28 countries both in terms of the working hours and fixed program, as shown by the dendrograms in figure 5.

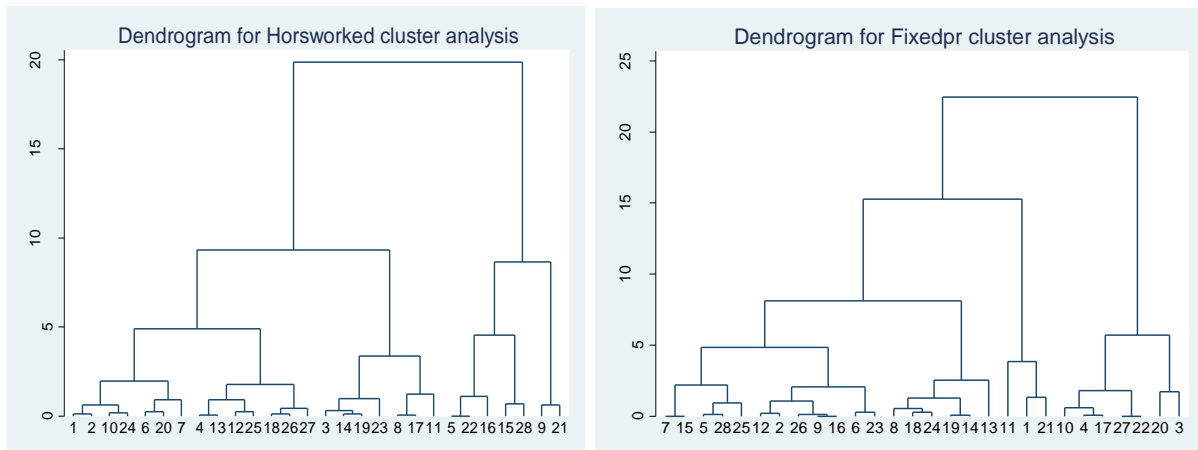


Figure 5: Cluster dendrograms for working hours (left) and fixed program (right)

Source: own process of Eurofound, EWCS data

Thus, we've analysed the average number of weekly hours worked by an employee and the type of working program in their interdependence with labour productivity and we've noticed that in most of the EU Member States (21 countries grouped into 2 clusters) the employees tend to work a significant number of hours with positive outputs in terms of productivity. On the other hand, as regarding the fixed program, Finland, Sweden, Denmark, Belgium and France have registered significant performances by configuring flexible working time arrangements (even though with a strict focus on starting and finishing the working program) that have allowed for positive results in terms of productivity compared to the other European countries.

Table 2. Clusters associated with the working time dimension of working conditions/ environment

Clusters	Working time		Clusters
	Hours worked	Fixed program	
Slovenia, Slovak Republic, Malta, Spain, Romania, Austria, Germany, Sweden, Luxemburg, Cyprus, Croatia, France, Denmark, Belgium	Medium	Medium	United Kingdom, Denmark, Sweden, Malta
Hungary, Latvia, Lithuania, Estonia, Bulgaria, Portugal, Finland	High	High	Luxembourg, Belgium, France, Estonia, Netherlands, Romania, Finland, Ireland, Germany
Italy, Ireland, Czech Republic, United Kingdom, Poland	Medium to low	Low	Czech Republic, Poland, Hungary, Spain, Latvia, Slovak Republic, Croatia, Austria, Bulgaria, Lithuania, Slovenia
Netherlands, Greece	Low	Medium to low	Cyprus, Portugal, Greece, Italy

Source: own process of Eurofound, EWCS data

Nevertheless, Greece, Italy or Poland tend to have some of the lowest results overall this particular working dimension, with reduced number of hours worked and no strictness in terms of starting and ending the working program that tend to induce poor productivity outputs. On the other hand, some Eastern European countries and the Baltic States have among the largest number of hours worked compared to the other EU Members, even though they don't necessarily have a strict working program, with different results however as regards the impact upon labour productivity. The other considered dimension of the working conditions relates to job difficulty and the physical factors influencing the work performed by the employees and the question addressed to this respect was: "does your work involve carrying or moving heavy loads?".

Figure following on the next page

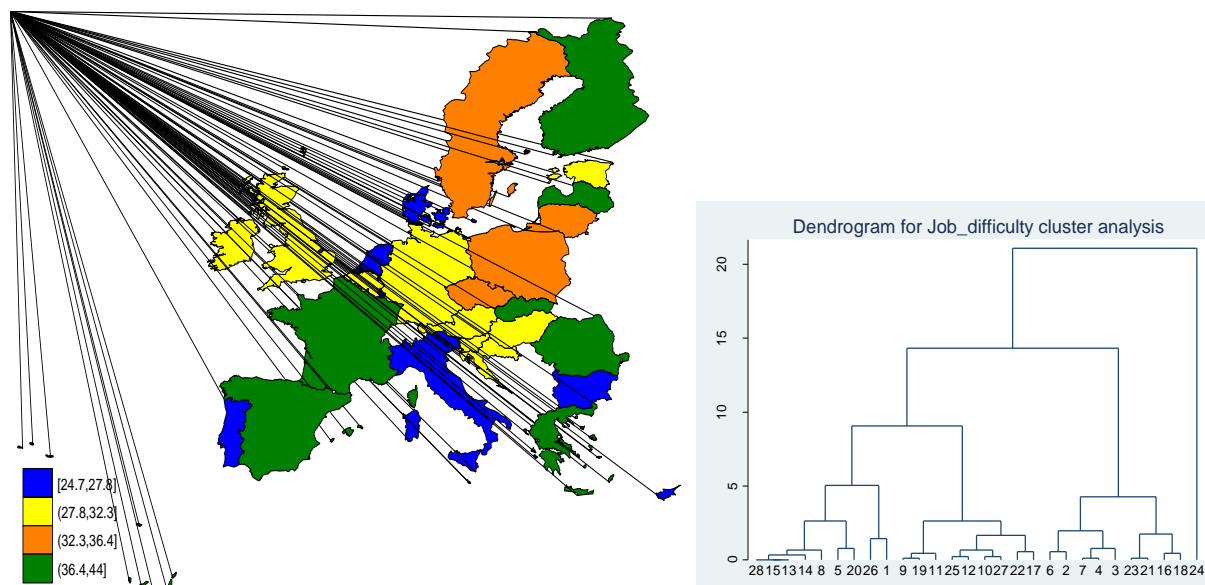


Figure 6: Job difficulty measured through the physical factors affecting the work of EU-28 employees and the Dendrogram for cluster analysis of this job quality dimension

Source: own process of panel data

The results obtained after processing the data collected by Eurofound in terms of cluster forming and analysis are represented by figure 6 and synthesised in table 3.

Table 3. Clusters associated with the job difficulty/ physical factors dimension of working conditions/ environment

Clusters	Job difficulty
Austria, Malta, Estonia, Hungary, Croatia, Czech Republic, Ireland, United Kingdom, Slovenia	Medium to low
Sweden, Poland, Greece, Lithuania, France, Spain, Slovak Republic, Finland, Latvia	Medium
Luxembourg, Bulgaria, Belgium, Denmark, Germany, Netherlands, Italy, Cyprus, Portugal	Low
Romania	High

Source: own process of Eurofound, EWCS data

The Ward clustering method allowed us to extract Romania's position out of the 28 EU Member States as the country with the most difficult job conditions in which an employee has to perform his work, mainly involving carrying or moving heavy loads. At close levels of job difficulty we can also find other countries from Central and Eastern Europe, namely Poland, Slovak Republic and the Baltic States. On the other hand, Bulgaria is placed among the old EU-15 Members (such as Luxembourg, Germany, Belgium, Italy or Denmark) which tend to grant better working conditions for their employees with limited physical factors affecting their work.

The other considered dimension of the working conditions relates to the skills acquired by the employees through attending different training programs paid by their employers, as well as the career prospects of workers measured through the difficulty in finding a job. The two questions addressed to this respect were: "have you had training paid for by your employer (or self if self-

employed) in the past year?” and “if I were to lose or quit my current job, it would be easy for me to find a job of similar salary?”.

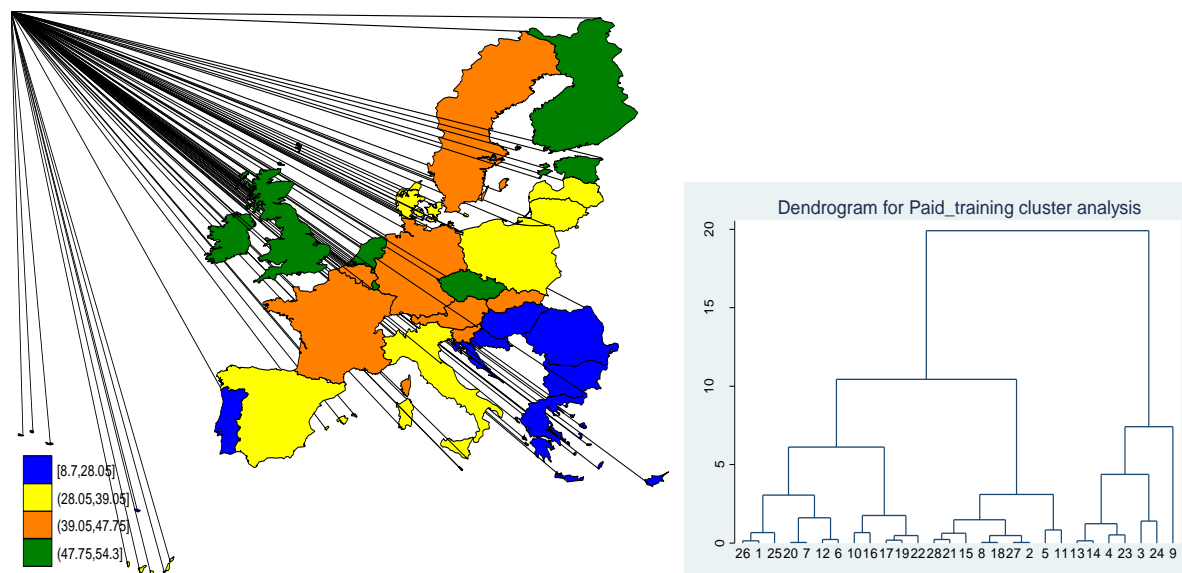


Figure 7: Employees attending training programs paid by their employers within the EU-28 and the Dendrogram for cluster analysis of this job quality dimension

Source: own process of panel data

Within this job quality dimension we were also able to differentiate Greece’s position in terms of low levels of training programmes ensured and paid by the employers for their workers, with significant negative effects on labour productivity, firm’s overall performance and labour market outcomes, Greece being well known at European level among the countries with high unemployment rates (both total and long-term as well as youth unemployment).

Table 4. Clusters associated with the paid training sub-component of skills, training and career prospects dimension of working conditions

Clusters	Paid training
France, Slovenia, Sweden, Poland, Italy, Malta, Germany, Denmark, Spain, Latvia, Lithuania, Austria	Medium
Estonia, Luxembourg, Finland, Netherlands, Slovak Republic, Ireland, United Kingdom, Belgium, Czech Republic	High
Bulgaria, Romania, Cyprus, Hungary, Croatia, Portugal	Medium to low
Greece	Low

Source: own process of Eurofound, EWCS data

However, most of the EU Member States tend to recently re-centre their employment strategies on active labour market policies, with a particular focus on developing skills and new abilities for workers through complex educational and training programmes.

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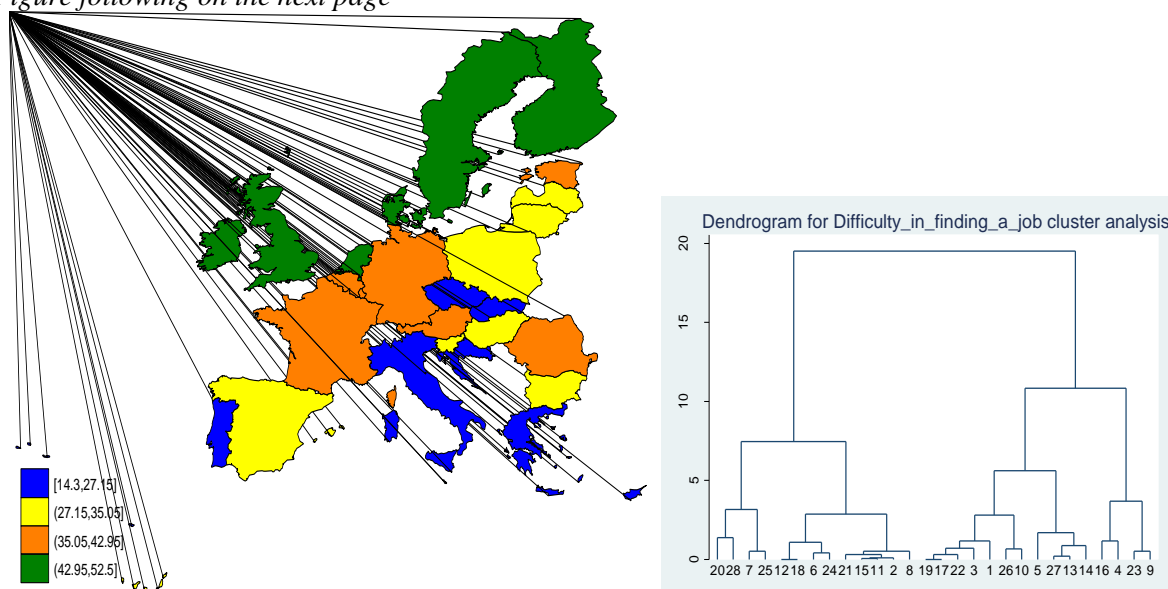


Figure 8: Future career prospects – the difficulty in finding a new job by the EU-28 employees and the Dendrogram for cluster analysis of this job quality dimension

Source: own process of panel data

These types of measures have significantly reduced the income and employment insecurity, thus improving career prospects for employees in various types of working arrangements. However, there are still some European countries where the employees worry about not finding another job with a similar salary if they were to lose their current position in a certain period of time (mainly Greece, Cyprus, Italy or Portugal, but also some countries in Central and Eastern Europe).

Table 5. Clusters associated with the career prospects sub-component of skills, training and career prospects dimension of working conditions

Clusters	Difficulty in finding a job
Sweden, Denmark, Malta, United Kingdom	Low
Belgium, France, Luxembourg, Ireland, Romania, Estonia, Netherlands, Finland	Medium to low
Slovak Republic, Hungary, Czech Republic, Austria, Lithuania, Bulgaria, Spain, Poland, Slovenia, Croatia, Latvia	Medium
Portugal, Italy, Greece, Cyprus	High

Source: own process of Eurofound, EWCS data

The Nordic States are well known for their labour market models and best practices at European level (namely the ‘Danish model’ of flexicurity) focused on balancing flexibility and security for a proper professional and personal development of employees and an adequate labour market insertion and integration (inclusion). Therefore, the results of such policies and accurate associated measures have significant positive effects upon the wellbeing of the employees and the overall economic activity.

By taking into consideration all these aspects, we’ve continued our research endeavour with a further development of six macroeconomic models that try to comprise the individual and

overall economic impact of various dimensions of the working conditions (environment/ job quality) (the results are presented in table 6), with the following configuration:

$$GDP_empl_{it} = \beta_1 + \beta_2 FP_{it} + \varepsilon_{it}$$

(1)

$$GDP_empl_{it} = \beta_1 + \beta_2 TD_{it} + \varepsilon_{it}$$

(2)

$$GDP_empl_{it} = \beta_1 + \beta_2 PT_{it} + \varepsilon_{it}$$

(3)

$$GDP_empl_{it} = \beta_1 + \beta_2 DIFJ_{it} + \varepsilon_{it}$$

(4)

$$GDP_empl_{it} = \beta_1 + \beta_2 FP_{it} + \beta_3 TD_{it} + \varepsilon_{it}$$

(5)

$$GDP_empl_{it} = \beta_1 + \beta_2 FP_{it} + \beta_3 TD_{it} + \beta_3 PT_{it} + \varepsilon_{it} \tag{6}$$

**Table 6. Estimation results for the job quality impact models
upon GDP per person employed**

	(1)	(2)	(3)	(4)	(5)	(6)
	<i>GDP_empl</i>	<i>GDP_empl</i>	<i>GDP_empl</i>	<i>GDP_empl</i>	<i>GDP_empl</i>	<i>GDP_empl</i>
FP	0.114*** (0.0296)				0.107*** (0.0277)	0.0641* (0.0287)
TD		0.0736* (0.0341)			0.0621* (0.0277)	0.0745** (0.0248)
PT			0.108** (0.0305)			0.0819** (0.0286)
DIFJ				0.100** (0.0314)		
_cons	0.00000645 (0.154)	-0.0000195 (0.177)	-0.0000137 (0.158)	0.00000645 (0.163)	-0.0000154 (0.143)	-0.0000351 (0.126)
<i>N</i>	28	28	28	28	28	28
<i>R</i> ²	0.363	0.152	0.324	0.282	0.470	0.605

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Source: authors' research

where:

FP – is the fixed program, respectively if the employees have a working program with fixed starting and finishing hours/ times in their work;

TD – reflects tight deadlines as a measure of work intensity;

PT – represent the training programmes ensured and paid by the employers for their employees;

DIFJ – is the difficulty in finding a job, respectively if a worker might lose his job in the next 6 months, how easy would it be for him to find another one with a same salary.

These macroeconomic models (simple and multiple linear regression models) were processed as a cross-section over the 28 EU Member States considered within the panel for 2015 in terms of various measures of the working conditions and their impact upon GDP per person employed. The estimated coefficients are positive and have a high level of statistical significance thus revealing that by improving various features of the working environment a country can benefit in terms of significant increases in GDP per person employed. The flexibility measures and rigorously working programme, along with adequate levels of work

intensity and attendance to training programmes ensured by the employer are some of the most important factors that lead to increased productivity and positive overall economic results.

5. CONCLUDING REMARKS

Working conditions are essential for a proper professional development of employees in terms of productivity and organizational learning, being key determinants of firm performance and general economic outcomes. The working environment comprises the general context where an employee performs his work related tasks individually and collectively in order to achieve various organizational objectives. Therefore, ensuring all the basic needs and associated facilities for workers so that they could efficiently do their work are important features of a good working environment, with further positive linkages to labour productivity and economic output. The environment of different workplaces varies significantly across countries in the context of the globalization process. The European Union has focused its employment strategies on several dimensions of job quality for an adequate labour market insertion of employees according to different types of contractual arrangements. Within this context, the research performed within this paper aimed to design a general framework of analysis for the working conditions in Europe, as main drivers of economic growth, with a decisive contribution to the increase in GDP per person employed. Thus, our results have shown that the three considered dimensions of job quality have positive effects upon GDP levels and labour productivity at EU-28 average level. However, the cluster analysis has also revealed important differences among the Member States, some countries enjoying flexibility and various schemes of training programmes, while others are still struggling with difficult working conditions in terms of associated physical factors affecting the work performed by the employees and not so favourable career prospects with further differentiated output impacts. Therefore, the European labour market policies should target a comprehensive assessment framework of the specific ways in which various measures adopted to improve the working conditions actually lead to productivity increases and general positive output results, since job quality is a core element used to boost economic growth towards the objectives set within the framework of Europe 2020 agenda.

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AGILITY IN CUSTOMER SERVICE USING CLOUD BASED CRM SYSTEMS AND ENTERPRISE COLLABORATION TOOLS

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ABSTRACT

Contemporary worlds of both the real and the virtual ones merge. Here comes the fourth revolution which equals to digitization. The digitization of customer service means for many companies the necessity of integration with the current exponential changes. Digitization impose changes in business models. Contemporary technologies like Internet of things, artificial intelligence, cloud computing and big data open new opportunities for enterprises but are very challenging at the same time. But especially for companies operating in a virtual environment customer service based on modern technologies became obligatory. These new technologies allowing full customization of the offer and highest level of customer service with acceptable costs and inputs. Using of these new technologies determine the position of the companies in the market. Instant share of knowledge, files, and customer related data across enterprise become crucial for gaining competitive advantage these days in turbulent and unpredictable business environment. Connect all employees with experts from whole organization regardless of their role or location is the best and most effective way to react quickly and proactively for customer's needs and expectations. Collaborate on sales opportunities, customer service cases and requests, marketing campaigns and innovative projects with embedded applications and custom workflows within one common integrated system open new markets. Agile (agility) become very popular term worldwide as proper usage of agile methodologies in business (especially in customer service) may lead to market success. This paper is devoted to the role of new technologies in the processes of customer service and enterprise social networks and collaboration. But also key issues in the introduction and use of these technologies are described. Authors presents how properly implemented instant communication tools can accelerate productivity and overall performance of the business including but not limited to sales and customer service processes. The article is based on case studies, research and experience authors have using one of the top CRM solution - Salesforce. In particular enterprise collaboration platform introduced by Salesforce called Chatter.

Keywords: Agile, Chatter, Cloud, CRM, Digitalization, Salesforce, Social

1. INTRODUCTION

Integrating technology and online services in business processes is bending the curve of the history of mankind's socio-economic development. Ever since humans appeared on Earth around 25,000 years ago, humanity has experienced many rises and falls. Hindsight shows that achievement in the social, cultural and religious fields happened relatively slowly. It was not until the late 18th century with the advent of the first technological inventions, in particular the steam engine, that development acquired a quicker pace. By bringing about mass production

and transport, the first industrial revolution caused an acceleration and reduced spatial distances. The second technological revolution, at whose threshold we have come to function, has caused the dynamic of those changes to accelerate exponentially. Information, integration of digital technology and the use of machines have set humanity off on a whole new direction. Today, the fate of the world is being shaped by forces and spoils of technology which only a few decades ago were no more than speculation in the minds of futurologists. The lines are become blurred between the biological and the physical, between the digital and the virtual. The key factors fuelling the development of the digital economy currently include The Internet of Things (IoT), the Internet of Everything (IoE), hyper connectivity, applications and services based on Cloud Computing, Big Data Analytics (BDA), Big-Data-as-a-Service (BDaaS), automation and robotization, multi-channel and omni-channel models for distribution of products and services (Pieriegut, 2016, p. 18). The virtual environment means that the method of strategic, tactical and operational management is changing. Transience, temporariness, immateriality, uniqueness, knowledge-intensity, transparency and partnership as indicators of the reorientation in the digital terrain, the necessity of agile management. In the 21st century, in the time of the omnipresent Internet and general use of information and communication technology (ICT) in business, there is more and more talk of flexible and agile management. Agile involves increasing successes in a constantly changing environment (Appelo, 2016, p. 335). Agile is an open approach to interpersonal communication, teamwork, creativity and self-organisation (Chrapko, 2015, p. 51). Terminologically speaking, agile is a concept identified with pliability, plasticity, modularity, mobility, elasticity, diversity and flexibility. The flexibility of enterprise is in turn a polymorphic, complex, sectional and abstract concept. Flexibility at the level of the organisation as a whole is intertwined with many changes which occur simultaneously and are interconnected, with different intensities, directions and ranges. There is an interdependency among the mechanisms, relations and mutual exo- and endogenous changes caused, which results in a multifaceted and complex form of flexibility in the open holistic system which is an enterprise. Taken dynamically, it is difficult to define precisely the sequence of events and the cause-and-effect relationship between individual determinants of an enterprise's flexibility. As a consequence, flexibility is not subject to explicit designations or evaluations (Moroz, 2013, p. 14). Despite these difficulties, many researchers have attempted to specify more fully the concept of an enterprise's flexibility. The effect of ontological research was attempts to ascertain a definitive form for the term, which was also done by researchers by indicating the ability to change as a result of a sequence of interactions between the enterprise and entities collaborating with it, the character of endless processivity (Volberda, 1996, p. 361) and the transition dynamic between states in the context of a turbulently changing environment. The imperative of flexibility arises from the dynamics and structure of changes in the environment, and also from the possibilities for the enterprise itself to initiate actions. Flexibility is the feature of an organisation which allows it to manage effectively in conditions of uncertainty (Eapen, 2010, p. 13).

Characteristics	Classically managed company	Agile enterprise
Organisational structure	vertical, linear	flat, taskforces
Location of power	centralisation, decision delegated to manager	decentralisation, decision in the hands of team
Quality perception	customer satisfaction	exceeding customer expectations
Management style	autocratic	democratic
Introduction of changes	slow	fast and comprehensive
Product life cycle	long-lasting products	quick replacement
Outsourcing	subcontracting	supply chain management

Table 1: Comparison of features of classically managed enterprise and agile enterprise (Ramesh, Devadsan, 2007, p. 188)

A vital component of this environment is the customer. Abilities in the field of satisfying customer needs and demands are currently a priority for every business which is thinking of success. Customers and service for them are a huge challenge for the contemporary entrepreneur. Efficient customer service can distinguish a business and its offer from its competitors on a given market. We can safely say that customer service is today one of the most effective weapons held by companies in the competitive struggle (Dlugosz, 2009, p. 24).

2. AGILE CUSTOMER SERVICE

To exist in an economic environment, a business, by its very nature as an artificial entity, requires customers, clients, for what it does. They form a kind of barometer of the company's condition. Their desires, needs and expectations constitute the driving force for the actions of an organisation geared not only towards survival, but above all towards expansion. A business exists where there are customers. When customers leave, the business dies. And where there are no customers, there is no business. Customer service is a concept considered at many varied levels. Beginning with the essence of competitive advantages created within the supply chain structures (Coyle, 1996, p. 155), through the essential component of distribution processes and quantified ability of the system to satisfy customer needs, right up to the strategic and organisational imperative in terms of the tasks realised by the business (Ciesielski, 2010, p. 66). The concept of customer service includes caring for customers, their needs and wishes. Customer service should involve understanding who customers are, what they want, what they do not accept, and what satisfies them, what their expectations and needs are, and finding the best way to satisfy these. When serving a customer, companies thus consider a wide range of elements which support the key product or service, and when choosing a product provider, the customer takes into account the entire offer and its value (Pawlowska, 2010, p. 89). The components of the customer service process are created both by the entities involved in the process, and by the process itself. They include on one hand the customers themselves, treated as generators of the process, as well as the tasks, events and transactions, and on the other the customers as consumers of the company's actions. Three phases are distinguished within the customer service process - pre-transactional, transactional and post-transactional. In the first phase, it is important to acquire as much data as possible concerning customers, and establishing the aims, standards and metrics for using this. In the next phase, identified with coming into contact with the customer, it is important to define metrics for the transaction completion time, and for the efficiency and reliability of actions conducted by the company. The final, post-transactional phase, known as the truth phase, testifies to the company's readiness to solve the customer's problems which arise along with the transaction being realised, i.e. product delivery, complaints and claims (Kucharska, 2010, p. 56). Specially dedicated systems are created within the organisational structures of companies, exclusively for serving customers, including architecture of aims, methods, techniques and tools for realising them (Cichosz, 2010, p. 163). Such systems should refer to strategic activities in defining an identity (mission, visual identification system, method of communication with customers on the basis of market information gathered), tactical actions in the form of integration and coordination of functional areas of the company (communications, sales, logistics) and operational activities - purely executive, which are determined by the decisions and choices of customers and which influence their satisfaction with the service process realised. Customer service currently determines the commercial success of companies to a greater degree than basic elements of the marketing mix, such as the product or price. It is becoming a powerful weapon in competitive struggles in this day of globalised trade and production. Today, the level of customer service is a way to obtain a competitive advantage. It is important both in strategies oriented towards low prices, and in product diversification strategies. Customer expectations are connected to their imagination, which focuses on the quality of a service even before it is acquired. The perception of service

is the subjective impressions felt by customers when buying and using a given service. It is only by comparing buyers' expectations with regard to service quality and their perception of it that a full picture can be obtained of the perceived quality of the service itself, as well as of the customer service connected to it.

2.1. Measuring the level of customer service - metrics and performance indicators

Declarations and statements by companies regarding the level of customer service they offer are nothing but rhetoric and dishonest marketing tricks until service standards which reflect them are introduced and actually realised. To this end, it is necessary to have a systematic programme for measuring and controlling the service provided to customers, as nothing can be managed if it cannot be measured. The results of the measurements form the basis for decisions concerning remedial action at the moment they indicate that customer service goals (expressed, for example, as the amount of transactions realised on time) are not being met. On the other hand, measurements alone, which do not result in any relevant corrective action, are simply a waste of time and generate unnecessary costs involved with conducting and analysing them. Effective remedial action taken on the basis of measuring errors and inadequacies in service may contribute to the creation of an effective and efficient customer service programme which will be appreciated by the customers themselves. When proceeding to plan how to measure the level of customer service, it is worth taking into consideration a definition of the basic sources of data used for measuring, and the choice of relevant elements (characteristics) of service to be measured. From the point of view of the sources of data which in the case of measurements are by nature primary sources, it is best for the company to make use of both internal and external sources. In other words, effective measurement of customer service requires analysis inside the company and at the contact point with the customer. Monitoring only one of these areas - internal or external - will be subject to error resulting from potentially missing important service elements connected with the area which was not measured. At the same time, the choice of appropriate elements (characteristics) of customer service to be measured may depend on many factors, e.g. ease of measurement, the information content of a measurement, the significance of a given service element for the company and/or customer. Most important, however, is to monitor those elements which are essential from the customer's point of view.

Measuring customer service	Area measured
1. Time	- length order processing cycle - response time to customer query
2. Reliability	- monitoring completed orders without errors - timeliness of deliveries
3. Communication	- number of customer complaints - availability of order status information
4. Convenience	- efficiency of refund process - emergency reaction speed

Table 2: Selected metrics of customer service efficiency (Murphy, 2011, p. 186)

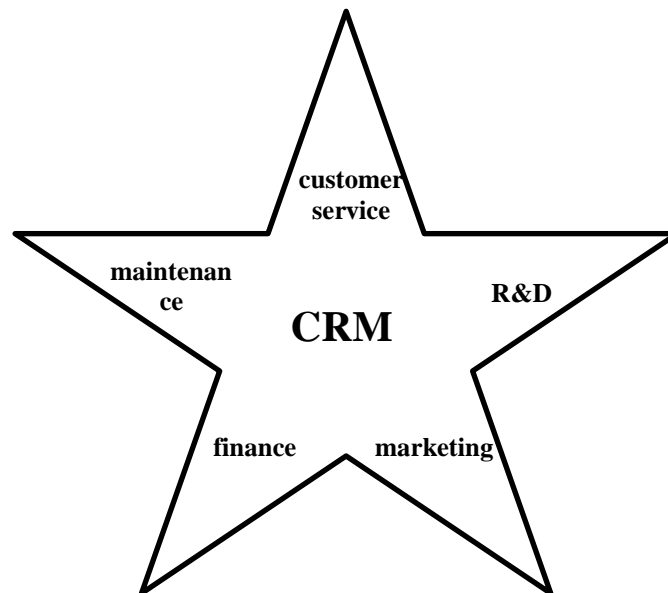
A key matter for decisions taken in companies is recognising the structure and efficiency of processes realised, particularly in the field of customer service. Defining efficiency involves comparing effects with effort made. An assessment of the efficiency of actions taken by a company should result from an analysis based on strictly assessed metrics and Key Performance Indicators. A metric is an economic category reflecting events and facts within the scope of a company's business, expressed in the appropriate units of measurement. A metric measures phenomenon Y (or its feature), which is easily observable and measurable, and is connected in a known way with phenomenon X, which is the object of interest. As a rule, metrics are treated as information and not subject to assessment, as a set of performance indicators is used for this purpose. A metric is an observable and measurable characteristic of an object or phenomenon, whose occurrence denotes the occurrence of another phenomenon. A metric can only be used when relative numbers (e.g. effects or costs) are used to assess a phenomenon, usually expressed as percentages (Slowinski, 2008, p. 67). The metric is thus understood as an observable variable necessary to grasp another variable which is not directly observable. The significance of individual metrics and the possibility to use them to various forms of systems of activities depends on the specific nature of the system. The set of customer service assessment criteria should basically be universal, but the importance of individual criteria undoubtedly depends on the situation of the company and the market in which it functions.

3. CRM SYSTEMS AND COMMUNICATIVE COLLABORATION TOOLS

At a time of challenges as faced in an economy based on information and on information and communication technologies, it is important to be able to use new technologies in the effective and productive realisation of customer service processes during the pre-transaction, transaction and post-transaction stages. Particularly with regard to executive actions, the use of varied technological solutions which will enable proper planning and realisation of processes for the customer in the business environment, is of immense importance (Noorachi, 2015, p. 128). Technology - in the sense of a strictly defined process belonging to productive or processing activities, methodology of proceeding in order to realise a defined process or task, or set of tools and procedural possibilities in the process of conducting a flow of cargo or people, and also in actions instigated to assist this process - is advancing such actions. The key to market success is now a company's ability to enable the design and then practical implementation of a clearly distinguished or unique way of satisfying the requirements and demands of a selected customer group by offering a unique set of benefits allowing it to beat the competition. The idea behind CRM systems is to treat each customer as an individual with separate needs, problems and habits, in line with the idea that the modern market is not a mass market. The CRM strategy is based on the assumption that customers will only want to buy from those suppliers who are able to understand their needs, can inform them of their offer quickly and specifically, and can ensure excellent service and technical support (Kramarz, 2014, p. 179).

3.1. IT supported business strategy

Managing a company involves particular difficulty when it comes to predicting the future. This means that accurate predictions of market tendencies are a deciding factor in gaining a competitive advantage. Currently, the most advanced systems which meet these conditions include those systems known as *Customer Relationship Management* (CRM). These systems serve to manage customer relations and can be considered as heirs to the SFA automatic sales systems (Adamczewski, 2000, p. 22). This philosophy is based on the assumption that retaining current customers is a far better way to achieve a competitive advantage than increasing market share. The appropriate IT solutions are implemented to this end. The CRM systems currently on the market belong to three categories - customer support (communication CRM), marketing automation (analytical CRM) and sales automation (operational CRM).



*Figure 1: Functional areas of companies integrated by CRM
(Adamczewski, 2000, p. 167)*

CRM as a business strategy includes not only forming loyal relationships with customers, but also increasing the company's productivity and reducing costs as much as possible. The level of customer satisfaction depends to a great extent on the effective management of contacts, with the help of up-to-date and precise information gathered by companies in modern data bases. Knowledge about a customer has become a very important tool in the hands of managers in sales and marketing departments, as well as in production, logistics and customer service. Analytical CRM tools are used to obtain and classify this information. This enables the data obtained by use of operational CRM to be analysed, client profiles can also be created, projects managed and sales analysed. The idea of CRM is sometimes explained as continuous relationship marketing, which mainly involves corporate management disciplines in order to increase the value of individual customers, or rather the value of relationships with them. Adapting a CRM strategy means reorganising the roles within a company in such a way that the interaction between the customer and the brand is constant, and constantly good.

The Internet is also a source of information for analysing customer preferences, and it also enables research and advertising campaigns to be conducted. This is known as online CRM, whose tools include e-service, special websites and e-bulletins. CRM tools also help to create virtual communities aimed at a specific product or service. Modern IT systems are just a tool to assist the process of implementing CRM strategies in companies, but most important are still changes in the company's organisational culture. The rapid development of the CRM philosophy has been influenced by the many and varied benefits that the approach brings an organisation. These include in particular the increase in sales volume, increase in profits with minimisation of costs, and increasing customer loyalty while also strengthening the bond between company and employees. The basic difficulties which CRM implementation involves include a certain degree of risk and initial costs. However, the major deciding factors in the success of this undertaking are the size and structure of the company, how advanced its IT is, and the qualifications and motivation of its employees.

3.2. Communication and on-line collaboration tools

Contemporary humans have access to as much in one day as those living in the 19th century encountered in their entire lives. In one second, over 800 applications are downloaded, 1,885 conversations are held via Skype, 2,760 photos are put on Instagram and 10,205 posts on

Twitter. There are also 108,000 views on YouTube and 51,000 searches in Google. This currently equates to an increase of 30GB of data weight on the Internet in a second. This much information is equivalent to the entire web 20 years ago. The tempo at which information is generated will continue to increase, with the Internet doubling its capacity at least every two years. The demand for data storage devices will also grow. IDC states that there will be 8.6m data centres in the world by 2017. The Digital Yearbook report prepared by the We Are Social website indicates that in 2016 there were around 3.42bn people with Internet access - nearly 46% of the entire world population. As reported by eMarketer, 3.6bn people around the world will be using the Internet in 2018, almost half of the entire population (48.2%).

Particularly significant in this context is the idea of virtualisation, which creates the possibility to exist and function in any time or place, meaning that with the aid of multimedia systems an organisation can present its products and provide its services at any location. Commercial use of the Internet enables constant realisation of communicative and transactional processes in the customer service process. The Internet, which constitutes a new quality in communication, has forced into existence a new defining category specifically for the model of communications. Hypermedia communication is characterised above all by symmetry (bi-directionality), which enables the creation of content by any of many users which is accessible to all of them. Every customer has the opportunity to participate constantly and actively in market transactions, and to freely exchange information. Such a concept creates a completely new quality in the process of business/customer communication (Chaffey, 2011, p. 627). A special role here falls to social media. Social media are most commonly defined as a group based on online solutions of applications which are based on the ideological and technological bases of Web 2.0, and which enable the creation and exchange of content generated by users (Ludkowski, 2012, p. 13). In effect, within a few second information about everyone and everything can be transmitted, read and copied so that millions of people around the world can find out. Social media are fluid - they evolve, changing their form every day. There is audio, images and video. In all of the media, every second. They are like a river current - constant, but never the same (Gitomer, 2011, p. 15). Social media allow every customer and employee to express themselves practically without limit. Barriers and boundaries are vanishing. Companies must be transparent and reactive, collaborating with entities around them. Over 500m people spend 20bn minutes a day on Facebook, and social media sites such as Facebook, twitter and LinkedIn are creating new behavioural norms, norms for sharing and forming relationships, which in turn influence almost every aspect of our lives (Shih, 2012, p. 22). The social media revolution, as a response to the human desire for self-expression, co-existence in a group and creation of bonds while simultaneously remaining anonymous, makes the Internet the very space which enables those desires to be fulfilled. The customer, once a passive consumer of the manufacturers' activities, now has a voice which must be listened to by manufacturers, distributors and sellers. Conscious and active customers demand specialised care at every stage of the transactional process. Such a client requires individual treatment and constantly updated information. Social networks allow knowledge to be shared, information to be transmitted and commented on, which means that customers are overwhelmingly stronger now in deciding about the existence of companies. Blogs, social networks, discussion forums, internet communicators and mobile apps are changing the relationships between organisations and their clients. Socialised and personalised social media are opening up new opportunities for entrepreneurs. Acquiring trust and involving customers today mean that the paradigm of human relationships is finding an opportunity for full expression. The desire for personalised experience of the world means dedicated management of company identities, so that while constantly striving for customers they remain in contact with them. Such activity means that has more possibilities than ever before to identify with a brand. Such an approach to the customer service process changes the way bonds are formed. Data obtained from social media sites inspires precise social-based customer

relationship management (Social CRM), enabling customer involvement to be increased at every possible point of communication contact - telephone, presence on social media websites or the location of the transaction. A highly promising solution for start-ups, and for existing businesses with limited resources, is the cloud computing technology which has seen a dynamic increase in popularity since 2007, and which enables businesses to make use of IT systems without having to invest in ICT infrastructure. One example of an application which is a CRM class IT system available on the cloud as an online service (Software as a Service), is Salesforce.com. This has been operating as a typical cloud application since as long ago as 1999 (Mateos, 2011, p. 70). Migrating IT systems from the classic (on-premises) model to a cloud (on-line) model involves virtualising business and the fact that the Internet is increasingly influencing the everyday life of the customer, and this is where transactions are increasingly being made. The data mentioned clearly indicates that tools for communicating and collaborating online are becoming the natural working environment for company employees. Both for everyday communication among the employees and for contact with customers. There are many reasons for this situation, but the most important ones are improvement in communication, real time updating of data and information, efficient sharing of knowledge and constant online contact with customers, which opens up entirely new opportunities for acquiring and serving both current and potential customers. A very good example of Social CRM is Chatter (Salesforce Chatter). This is a platform for communications between employees and clients, included in and provided along with a CRM class IT system by Salesforce.com. This solution has been compared to a social media site, and is often called the CRM's inbuilt Facebook. The community is, however, created by employees of the company using CRM Salesforce and is focussed on how best to organise the general process of customer service at every stage. Chatter provides quite unlimited opportunities with regard to increasing sales productivity, raising the level of innovativeness in customer service, sharing knowledge among employees and undertaking the necessary actions and interactions with customers regardless of time or place, as the system itself works on the Internet and can be available via a web browser or dedicated application (Salesforce1) on any mobile device.

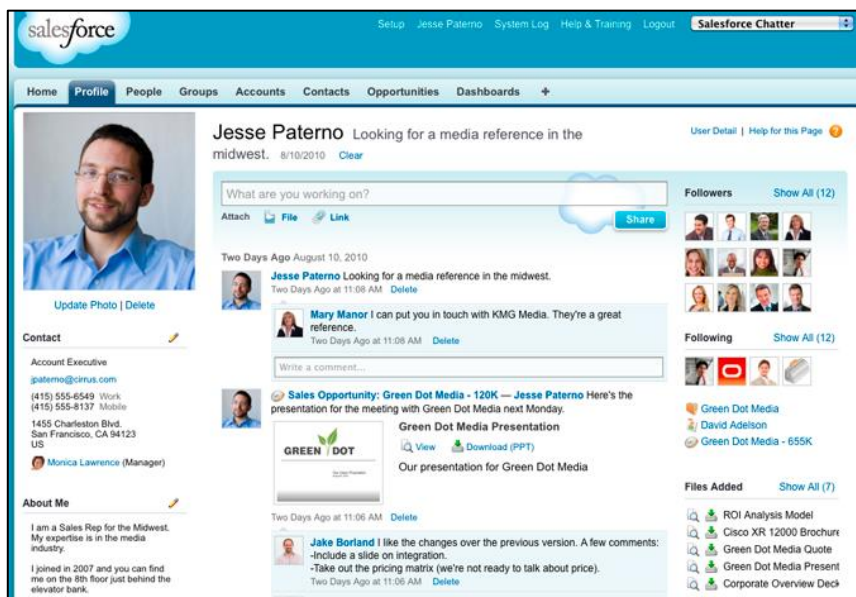


Figure2: Collaborate at work using Chatter
(<https://www.salesforce.com/uk/chatter/gettingstarted/whatischatter>)

Customers in Social CRM systems receive access to the company via Communities, i.e. social portals which are the part of the CRM system available to the customer. This harks back to the

traditional concept of the Extranet, except that customers have permanent access to the Community via the Internet from any device. Such an approach opens up entirely new channels of communication and collaboration between the customer and the business, and allows the customer to influence the shaping of the service process.

4. CONSLUSION

Innovation is useless not only without people but without implementation. It does not matter how creative people are if the ideas they create will never be used to implement new products or services, they will remain merely interesting artefacts (Phillips, 2008, p. 112). In this light perfect customer service becomes a key element and a way to gain competitive advantage. In the 21st century it is the Internet and information systems that give unlimited possibilities to meet customer expectations, respond to their needs and communicate directly with them. Social CRM communication solutions play a particular role in this process which on the one hand, gives enterprise employees the knowledge of the customer (within CRM system) and on the other hand opens direct communication channels using collaborative tools known from social networking sites. This approach is particularly beneficial in cooperation with the next-generation customer (the e-customer) especially young people for whom the Internet is a natural life and work environment and place for creation and maintenance of business relationships. If companies properly use this expectation and utilize effect of synergy coming from the merger of good business practices (like CRM) and new IT technology they will be preferred by new-generation customers and finally win market competition.

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ASSESSMENT OF THE EFFECTIVENESS OF THE USE OF THE ASSETS OF THE NATIONAL FUND OF KAZAKHSTAN AND WAYS TO IMPROVE IT

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ABSTRACT

In the context of globalization, Kazakhstan's economy requires comprehensive measures to increase the assets profitability of the National Fund, the quality of its management and the use of assets. Now the efficiency of its using is low. This study analyses the profitability of NFK's funds, as well as ways to increase it by using a new model of its formation and distribution. It consists in the accumulation in it, not only rents from oil and gas, but also from all raw materials, the addition of investment functions, the revision of the policy of funds allocating, and the formation of a more optimal portfolio of savings allocations.

Keywords: *Efficiency, Kazakhstan, Model, National Fund, Optimal Portfolio, Return on Assets*

1. INTRODUCTION

The National Fund of Kazakhstan (NFK) was established in 2000 with the aim of ensuring the stable social-economic development of the country, accumulating financial resources for future generations, reducing the dependence of the economy on the impact of unfavorable external factors (President's Order, 2000). It represents the account of the Government of Kazakhstan in the National Bank of Kazakhstan (NBK). Management of its funds is carried out by the NBK. The fund's resources are formed at the expense of tax revenues of companies engaged in the production and sale of crude oil and gas condensate (about 55 companies).

The NFK performs savings and stabilizing functions. The first provides the accumulation of financial assets and other assets and the profitability of its assets in the long term at a moderate level of risk. The second is designed to maintain a sufficient level of liquidity of the NFK assets. From 2001 to 2014, the amount of accumulated funds increased from \$1.24 billion to \$73.24 billion, or increased 59 times. In 2015-2016, they decreased by -13.29% and by the end of 2016 were \$ 63.39 billion or 28.7% of the country's GDP. The establishment of the NFK was an important step forward to ensure the sustainability of economic growth, as it was planned to withdraw of surplus income from the economy, associated with the rapid utilization of the country's natural resources, on the accounts of foreign assets, which sharply reduced the risks of Dutch disease. The presence of the NFK raises country ratings and reduces the cost of foreign borrowing for the governments and firms. During the crisis, it gives the economy a certain reserve of security.

However, since the global economic crisis in 2007-2008, the NFK has been increasingly focusing not on accumulating funds for future generations, but on "urgent current needs" such as surviving of commercial banks, supporting national companies, and of course, filling the State budget gaps. How much is this policy appropriate?

This question is especially relevant in the context of non-transparent and complicated fund management system, low profitability of funds allocation and high commissions to external managers, uncontrolled transfers from the NFK, spent on the financing of the or a budget deficit and the "urgent" needs of the State and enterprises. Currently, state bodies are aware of the danger of rapid depletion of the Fund's assets in conditions of low world oil prices, and try to solve the above-mentioned problem through more precise legal regulation of transfers, improving approaches to the formation of the investment portfolio, reducing the volume of transfers from the budget, etc. However, the proposed measures are more cosmetic, and do not offer a cardinal solution to the above problems.

Because of the great social and economic importance of the NFK for the country, a new concept of managing its funds is urgent, as it allows to use these means more rationally and not only to preserve them, but also to multiply their amount for future generations. Therefore, the purpose of this article was to study the effectiveness of the use of the fund's resources and the development of a new concept of the fund, which would allow the NFK to use its funds efficiently. The work consists of an introduction, a review of the literature, methodology, research, conclusions, recommendations and a list of references.

2. LITERATURE REVIEW

Sarinzhipov A. and others (2007) reviewed the experience of the formation and use of national funds in various countries of the world, like Canada, Azerbaijan, Qatar, Kuwait, UAE, Norway, Chile, and Kazakhstan. They noted the policy of the funds in the Arab countries to purchase large stakes in western companies. As a model fund, they indicate the Norwegian Fund, which conducted conservative policy of placing its funds in relation to risk than other funds. Nevertheless, for 1997-2007, the nominal yield of the fund was 6.5%, while the average real yield was 4.3% in foreign currency. In addition, they assessed the negative impact of the guaranteed transfer on inflation. They also found that by financing of the non-oil deficit at the expense of national funds, the state faces lost profits that are equal to the average yield on assets of such funds multiplied by the amount of guaranteed transfer.

Shapagatova B. (2011) identified three stages of the establishment and formation of the NFK: the first stage was the formation of the Fund in 2000-2005, the second stage was connected with the adoption of the Medium Term Development Concept of the Fund and have been used in 2005-2010 and the third stage included new approaches to the development of the Fund and has been in operation since 2010. She assessed the transparency of the NFK's activities using the Linaburg-Maduelle transparency index, which showed compliance with 6 out of 10 norms. She has also assessed the compliance of its activity with the Santiago Principles and concluded that out of 24 principles, the NFK fulfills 12, only partially – 7, and does not match with 4 principles, and by one principle the performance evaluating was not possible due to lack of sufficient information.

Kapparov (2015) carried out an analysis of the use of NFK targeted transfers. He came to the conclusion that they are not being used effectively. In this regard, the probability of bringing the Fund's assets to 180 billion dollars by 2020, set in the Concept of April 2, 2010, seems to be low. The author proposed to consolidate in the legislation a list of goals for which targeted transfers can be allocated. He also calls for the adoption of a special Law "On the NFK".

Shaginov and Kuanshaliev (2016) assessed the effectiveness of the use of NFK's funds and concluded that with an oil price of less than \$30, the National Fund will be sufficient for only five years. They also revealed a significant discrepancy in the cash flow information from the

Ministry of Finance and the NBK, which they explained by the significant volatility of the national currency - tenge. They calculated that the spending of NFK funds was extremely inefficient. With total revenues to the NFK from 2001 to 2016 of 39.5 trillion tenge, or \$118.2 billion, the bulk of it in the amount of 14.9 trillion tenge, or \$44.6 billion or 38% was spent on current needs and not the needs of future generations.

3. METHODOLOGY

Calculation of the profitability of the NFK was carried out in the base currency - US dollars. As a risk-free rate of return, the yield of 10-year-old U.S. Treasury was used to calculate the risk premium for the fund's portfolio.

3.1. Assessment of the effectiveness of Fund's portfolio management

To evaluate the effectiveness of portfolio management, we will use the Sharpe ratio (Sharp, 2016). The larger this ratio, the more effective the portfolio managers manage the fund. The Sharpe ratio or the "Yield-Risk" ratio is calculated by the formula:

$$S = \frac{E[R - R_f]}{\sigma} \quad (1)$$

Where R is the yield of the portfolio (asset), R_f is the profitability of the risk-free security, σ is the standard deviation of the portfolio return (asset).

3.2. Formation of an optimal portfolio of securities

The formation of a portfolio of securities includes the definition of specific assets for the investment of funds, as well as the proportions of the distribution of invested capital between assets. Thus, it is necessary to solve the problem of asset allocation for risky and risk-free portfolios: "What part of the portfolio is invested in short-term treasury bills and other reliable money market securities, and what part is invested in risky assets consisting of a portfolio of stocks and bonds?"

Based on the construction of capital distribution charts (CAL), it is necessary to determine the optimal risky portfolio consisting of stocks and bonds (Bodi and et al, 2008).

Assume that the share of investor funds, which we designate w_b , is a bond investment in the Fund, and the balance ($w_s = 1 - w_b$) is invested stock in the Fund. The expected rate of portfolio revenue is a weighted average of the expected rates of individual securities incomes, while as the weighted coefficient used the shares of the securities in the portfolio:

$$E(r_p) = w_b \times E(r_b) + w_s \times E(r_s) \quad (2)$$

The portfolio return's dispersion, which includes two risky assets, is calculated using the following formula:

$$\sigma_p^2 = (w_b \times \sigma_b)^2 + (w_s \times \sigma_s)^2 + 2 \times (w_b \times \sigma_b) \times (w_s \times \sigma_s) \times \rho_{bs} \quad (3)$$

where ρ_{bs} is the correlation coefficient between the yield rates of equity and bond of the funds. The share of bonds investments that minimize portfolio dispersion is determined by the following formula:

$$w_{\min} = \frac{\sigma_s^2 - \sigma_b \times \sigma_s \times \rho_{bs}}{\sigma_b^2 + \sigma_s^2 - 2 \times \sigma_b \times \sigma_s \times \rho_{bs}} \quad (4)$$

4. ANALYSIS OF THE EFFECTIVENESS OF THE USE OF THE NFK'S MEANS

4.1. Evaluation of the effectiveness of the utilization policy of the NFK

Oil prices strongly influence the economy of the country, since it has a pronounced raw material orientation. This is also true for the assets of the NFK, which also repeat the dynamics of changes in world oil prices (Figure 1). When the average price of Brent crude in 2014 was \$ 98.9 per barrel, then in 2015 it fell to \$ 52.3, or almost 47.1%.

For example, when the average price of Brent crude in 2014 was \$ 98.9 per barrel, then in 2015 it fell to \$ 52.3, or almost 47.1%. This led to a decrease in the assets of the fund for 2014-2015 from \$ 73.4 billion to \$ 63.4 billion.

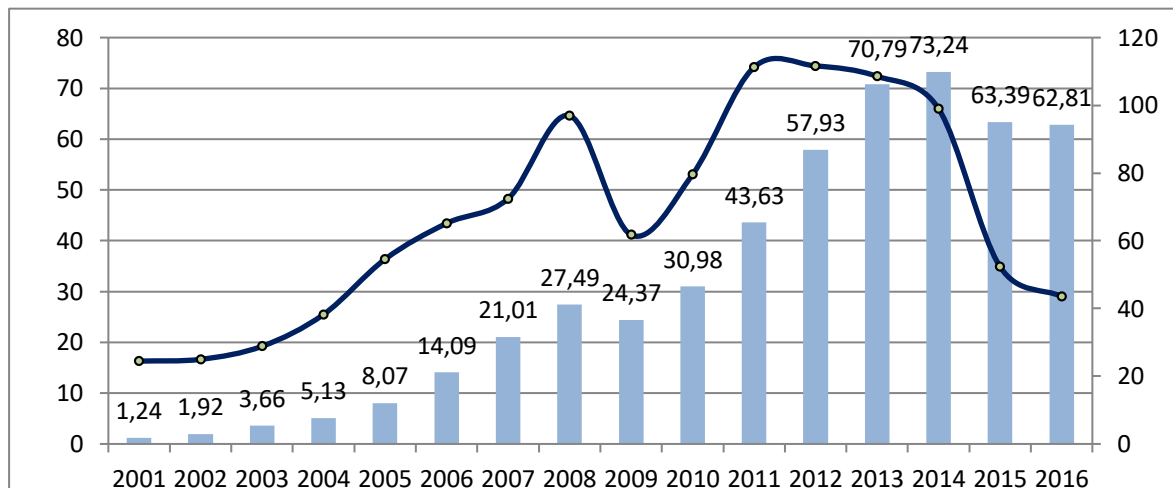


Figure 1. Dynamics of changes in the NFK's assets and Brent oil prices for 2001-2015

The accumulated profitability of the investment portfolio of the NFK for 2001-2015 was 66.64%, which is 3.56% per annum in average annual terms. At the same time, in some years the yield was negative. For example, in 2008 - the time of the global financial crisis it was (-) 2.28%. In 2014 and in 2015, it was also negative (-) 1.44% and (-) 1.19%, respectively.

Negative profitability for 2014-2015 years indicates the receipt of losses by the NFK in these years. This indicates a low efficiency of placement of NFK funds (Figure 2), as at this time the economic situation in the world, with the exception of oil-producing countries, was quite favorable.

In addition, we calculated the risk premium, which is necessary to calculate the Sharpe ratio, which characterizes the effectiveness of portfolio management.

In general, for 2001 to 2015, the accumulated yield of the NFK's portfolio was 66.64%, and annual - 3.56% per annum (Table 1). The average premium for risk is negative and is only (-0.02%). The Sharpe ratio, which shows how much the fund has earned by 1 risk unit, is -0.0049, and accordingly, such a low value of the coefficient means that the fund was not managed effectively during the period under review. The negative value of the Sharpe ratio (ie below zero) indicates that it was more expedient to simply put the fund's funds in risk-free securities and get a risk-free yield than to attract foreign managers.

For comparison, the accumulated yield of the Norwegian oil fund for the same period of time was 5.78% and the Sharpe ratio - 0.3167. All this confirms that the fund of Norway over the period under review was managed more efficiently than the NFK.

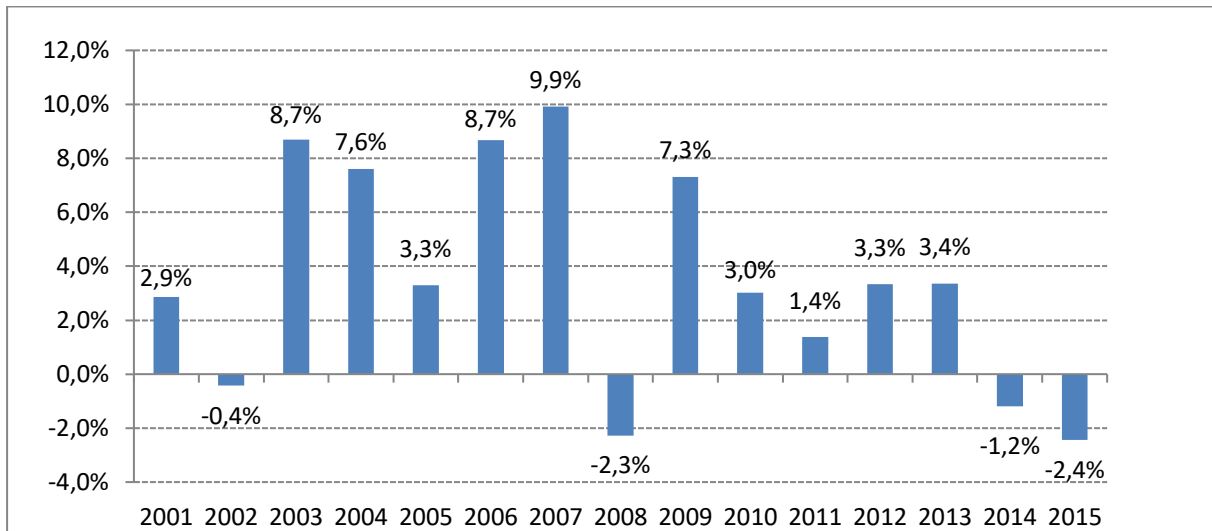


Figure 2. Yield of the NFK's portfolio for 2001-2015

Table 1. Calculation of the Sharpe ratio for 2001-2015 (author's calculation)

Indicators	Profitability	
	National Fund of Kazakhstan	Oil Fund of Norway
Accumulated profitability	53.09%	86.68%
Average arithmetic yield	3.54%	5.78%
Average geometric profitability	3.46%	5.17%
Standard deviation of the portfolio	4.12%	11.24%
The average value of the risk premium	-0.02%	3.56%
The Sharpe Ratio	-0.0049	0.3167

The reason for this divergence of profitability is related to the different structure of the investment portfolio in both cases (Table 2). In the case of Norway, the share of shares is larger (62.5%), and in the case of Kazakhstan - bonds (79%).

Table 2. The structure of the investment portfolio for 2001-2015 (author's calculation)

Types of assets	Portfolio Structure	
	National Fund of Kazakhstan	Oil Fund of Norway
Stocks	19.9	62.5
Fixed income instruments	79.0	34.3
The property	-	3.2
Money market instruments	1.1	-
Total:	100	100

4.2. Assessment of the effectiveness of portfolio management

Let us define now what assets should be invested by the NFK in order to ensure the highest yield at given risk levels? To do this, consider the annual returns for the four main classes of assets for the period from 1926 to 2016 (Table 3). Data from the Federal Reserve's Economic Data (2017) and Ibbotson et al. (2016) were used for calculations.

Table 3. Annual return on various assets for 1926-2016 (author's calculation)

	Treasury bills	Long-term government bonds	Long-term corporate bonds	Ordinary shares
Average profitability	3.42	5.44	5.90	11.93
Standard deviation	3.11	8.84	8.46	19.83
The coefficient of variation	90.7%	162.6%	143.3%	166.2%

The most risky instrument for the period under consideration was ordinary shares (coefficient of variation - 166.2%), then long-term government bonds (coefficient of variation - 162.6), long-term corporate bonds (coefficient of variation - 143.3). The least risky were treasury bills (coefficient of variation - 90.7). The most profitable instruments are also ordinary shares (average yield - 11.93). They are followed by long-term corporate bonds (average yield - 5.90), long-term government bonds (average yield - 5.44). The least profitable were treasury bills (average yield - 3.42). These tables confirm the general rule: with increasing risks, the yield of securities generally increases. The exception was long-term bonds of corporations.

4.4. Calculation of the optimal portfolio for the NFK

Based on the historical data for the period under review, the standard deviation of the bond yield was 8.46%, the standard deviation of the yield of the shares was 19.83%. The correlation coefficient between the yield rates of equity and bond funds was 0.2155. Figure 3 shows all possible combinations of risk and return that are provided by portfolios formed with the help of assets available to investors and presented in various proportions. Points on the set of investment opportunities shown in Figure 3 can be found by changing the investment proportions and calculating the final values of expected returns and standard deviation using formulas (2) and (3). The share of investments in bonds is calculated by the formula (4), $w_b = 0.8$ and the share in the stock according to the formula $w_s = 1 - w_b = 0.2$. At these ratios, we obtain the expected yield of the portfolio in the amount of 7.11% and the minimum value of the standard deviation of the portfolio in the amount 7.84%. Assume that we, without refusing to use the risky bond and equity funds, are now ready to invest part of the funds in risk-free treasury bills with a yield of 3.42%. Two possible capital allocation schedules (CAL) are constructed from the point of risk-free rate of return ($R_f = 3.42\%$) for two possible portfolio options. The first version of CAL is built for a portfolio with a minimum variance (A), which involves investing 80% in bonds and 20% in shares. The expected rate of return of portfolio A is 7.11%, and its standard deviation is 7.84%. The yield-risk ratio of portfolio A equals 0.47. To obtain the most optimal portfolio, it is necessary to increase the CAL_A steepness until it passes tangentially to the curve reflecting the set of investment opportunities.

Figure following on the next page

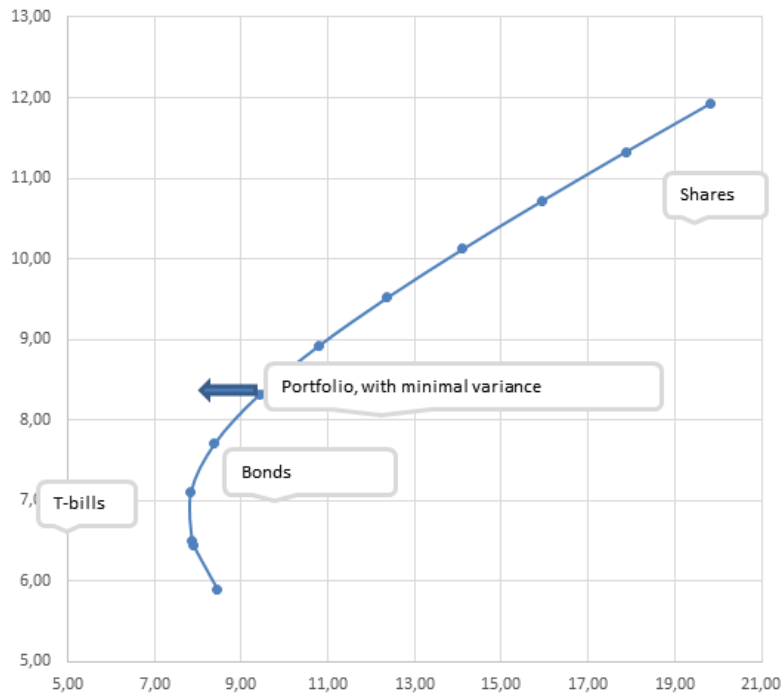


Figure 3. Aggregate investment opportunities for bond and equity funds

The portfolio (O) in Figure 4 represents the optimal risky portfolio of shares combined with treasury bills.

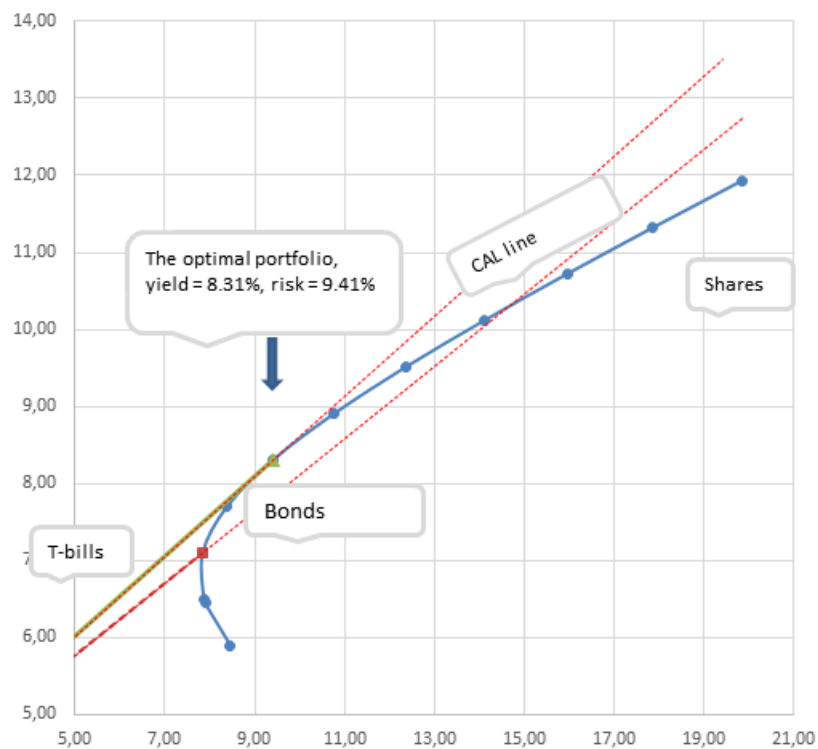


Figure 4. The distribution of capital (with the optimal portfolio) using bonds, shares and treasury bills.

The expected return and standard deviation of the optimal risk portfolio are $E(r_o) = 8.31\%$ and $\sigma_o = 9.41\%$, suggest investing 60% in bonds and 40% in shares. CAL with our optimal portfolio has a slope equal to 0.52. Thus, the NFK first of all needs to form a risky portfolio (O), since this portfolio provides the highest return per unit of risk, or the steepest CAL capital allocation schedule. On the other hand, the portfolio (O) is formed by combining the bond fund and stock fund with the corresponding weighting factors of 60% and 40%. Hence, in the optimal investment portfolio of the NFK, the share of the risk-free asset should be 25%, the share of the bond fund - 45%, and the share fund share - 30%.

5. CONCLUSION

The current model of formation and use of the NFK is not effective, as it does not accumulate all unearned incomes of the country's extractive sector and makes the current activity of enterprises subject to the influence of external factors, such as changes in the prices of raw materials. In addition, the collection of all taxes from the oil and gas enterprises to the fund, and not only the rents received for the use of a rare resource, make budgets of different levels initially scarce. In our opinion, the rental income must be assigned by society and not by firms or individuals that use the oil and gas fields or other mineral deposits. This is legitimate and fair for the following main reasons:

- First, society, not firms or individuals, is the owner of rare resources.
- Secondly, the appropriation of rent by legal and physical persons will obscure the results of their activities, which makes it impossible to accurately assess the effectiveness of their work, and also reduces their incentives to improve the performance of their activities.
- Thirdly, the withdrawal of rental income does not worsen the activities of economic entities, since rent is an excess income, which is not connected with labor efforts of an economic entity, but is connected with the availability of a rare resource at its disposal.

These provisions make it possible to develop a new model of the NFK's activity. It would allow not only to accumulate sufficient funds for future generations and reliably protect the economy from Dutch disease, but also ensure a not deficit budget at both the republican and regional levels, and bring the incomes of firms and citizens with their real labor contribution.

The current NFK model can not cope with this tasks because of the following shortcomings:

1. The NFK accumulates all taxes of the oil and gas sector. This leads to the fact that the republican budget and some regional budgets initially becoming a deficit, as they don't collect all taxes owed to them. As a result, the oil-producing regions depend heavily on subventions from the republican budget, and this in turn on transfers from the NFK.
2. The NFK accumulates only tax revenues from the oil and gas sector, and not from all extractive industries (uranium, non-ferrous metallurgy, grain industries and so on) of the country's economy. This does not make it possible to withdraw from legal and physical persons all the natural rent, which they assign, but which must be taken by the whole society. This violation distorts the results of the activities of economic actors and reduces their incentives for productive work. This also leads to a revaluation of the national currency and the Dutch disease.
3. The executive bodies dispose of the NFK's resources, which removes them from the full control of the society. This may lead to not always effective use of the fund's resources, which are often used for current needs or image projects.
4. Directions and conditions for the formation and use of the fund's resources, including stabilization and insurance transfer are legally not clearly declared. This leads to their not rational use and does not guarantee their preservation for future generations.
5. The fund's activities are not completely transparent. Not all transactions are reflected in the published statements. The lack of full openness leads to manipulation of the fund's recourses by government's bodies, which may lead to their rapid depletion.

6. RECOMMENDATIONS

For this reason, we developed a new model for the formation and use of the NFK.

1. The NFK should accumulate only rents and not all taxes from the oil sector. This allows a more accurate assessment of the efficiency of oil and gas companies, since the true purpose of the fund should be the accumulation of the unearned income caused by favorable external conditions, but not the taxes, which in full amount should be paid to the relevant budgets. This measure will lead to no scarce budgets at all levels, especially in oil-producing regions.
2. The NFK should accumulate natural rent from all extractive branches of the economy. This is very important for a country that exports almost all its exports in the form of raw materials. This also will create fair and equal economic conditions for all enterprises of the country.
3. The funds of the NFK should be managed by the society represented by the parliament, as is done in civilized countries, and not by the executive bodies themselves, since the latter have a direct interest in using the fund's resources not for its intended purpose, but for solving current needs or the problems, created by their inept management. This requires the introduction of a special law that would regulate the relationship of the fund with state bodies, public institutions and other entities (Kapparov, 2015).
4. It is advisable to move from the currently used method of the shared use of NFK, which threatens the accumulation of funds for future generations in the conditions of deterioration of the internal and external environment, to a more progressive one. These means the use of the fund's resources only in the amount received from their placement for investment income, as the Norwegian fund does, which guarantees the preservation and accumulation of funds for future generations. Reducing the budget deficit by transferring taxes from the NFK to the relevant regional and republican budgets and a sharp increase in the return on assets of the NFK through the proposed optimization of its portfolio will create favorable conditions for such a step.
5. It is necessary that audit reports and detailed information on the investment policy of the NFK be published and disseminated to the general public. The NFK should create its own website, which should contain full information about all its activities (Simon Clark, 2017).

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(IN)VISIBLE FACTORS IN IMPLEMENTING ECONOMIC REFORMS – SOME THEORETICAL CONSIDERATIONS

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ABSTRACT

Economic growth resulted in an increasing number of externalities and changes in life and technology creating new social problems to be solved. While increased stock of knowledge made radical changes in production technologies and offered a foundation for the world of plenty, on the other side the institutional framework needed to deal with increasingly complex issues societies were facing. The overview of different theoretical insights, mostly from institutional economics, will be presented in this paper. This paper contributes to the discussion on the facilitation of the process of managing economic reforms through a better understanding of hidden factors that influence economic outcomes.

Keywords: *Belief system, Economic reforms, Institutional change, Public policy, Trust*

1. INTRODUCTION

When explaining feasibility as one of the key good ideas in New Institutional Economics, O. Williamson (2000, pp. 601-602) argues:

“What I have referred to as the remedialness criterion is intended to rectify this asymmetric state of affairs. This criterion holds that an extant mode of organization for which no superior *feasible* alternative can be described and *implemented* with expected net gains is *presumed* to be efficient. To be sure, public policy analysis becomes more complicated when analysts can no longer condemn extant modes because they deviate from a hypothetical ideal, full stop. The remedialness criterion presses the public policy analyst to display a superior feasible alternative. If, moreover, a proposed feasible alternative cannot be implemented without any costs, then the costs of implementation are appropriately included into the net benefit calculus - which has major ramifications for the path dependency literature. Finally, grounds for rebutting the efficiency presumption need to be addressed - which brings in politics. Absent rebuttal, the remedialness criterion stands as a reminder of the obvious: it is impossible to do better than one’s best.”

While supporting O. Williamson’s criterion, (Dixit, 2000, p. 146) shortened the rule: “A policy should not be condemned as inefficient unless a superior alternative that respects all these constraints can be demonstrated”.

While mostly using institutional economics perspective, this paper seeks to highlight some underestimated issues that influence the reform implementation. It is based on theoretical insights, yet enriched by some empirical analyses from recent post-socialist transformation. It is structured as follows: Section 2 disentangles the (mis)conceptions on the implementation; Section 3 discusses the role of belief system and Section 4 the role of trust in institutional changes. Section 5 offers practical implications of the institutional and policy reforms. Finally, Section 6 provides concluding remarks.

2. UNDERSTANDING INSTITUTIONAL ECONOMICS, EMPHASIS ON IMPLEMENTATION

A vast body of literature takes enforcement for granted using one of the two assumptions: perfect enforcement or constantly imperfect enforcement (North, 2008, p. 54). Whether seeing institutions as exogenously-given constraints or endogenous self-enforcing rules, their common denominator is that they will be meaningful only if the constraints imposed by them are enforced. In the exogenous models, the third party is in charge of the enforcement, whereas in the endogenous models the enforcement issue is not considered; they are therefore suitable for relatively simple institutions (Roland, 2004). North also states the major difference in his approach comparing to Williamson. Oliver Williamson assumes that enforcement is imperfect, but it is not an explicit variable in his analysis. Since North considers that the major cause of the underdevelopment of the Third World and historical downfalls is the inability to create the effective enforcement of contracts, he claims that Williamson's approach is not appropriate for the analysis of the historical evolution and addressing institutional change in particular and herewith connected the low cost enforcement of contracts. The low information level of the people on the institutions and their beliefs on the effects of future changes make a significant barrier in the study of institutional change and may slow down the reform processes. Furthermore, it is quite difficult to assign responsibility for certain effects of institutional change and consequently monitor the accountability of public administration. As a result, unfavourable institutional environments may stay long in place, whereas the favourable ones may not last long enough to show significant positive effects (Nye, 2008). That confirms Rodrik's (2009) point on the relation of good policy with good politics and a longer period time for good policy to show results. The growth of population resulted in an increasing number of externalities and changes in technology creating new social problems to be solved. The increased stock of knowledge made radical changes in production technologies and offered a foundation for the world of plenty, but at the same time created numerous destructive issues. As a result the institutional framework needed to deal with increasingly complex issues societies were facing. Consequently, "institutions as the incentive structure of societies have produced diverse inducements to invest in, expand, and apply this growing knowledge to solve problems of human scarcity" (North, 2005, p. 43). These inducements have increased the human creative potential and combined with various cultural foundations created responses to the newly emerged problems of mankind. Those responses have not always been productive. Transition of a belief does not happen automatically and is not by default successful; it may result in stagnation and frustration. North (2005, p. 44) states that supernatural beliefs and religions play a key role, but the change in the cultural context changes the nature of that role. North (2005, p. 44) states that supernatural beliefs and religions play a key role, but the change in the cultural context changes the nature of that role. North (2005, pp. 49-50) explains the interrelationship of the belief systems and the institutional framework claiming that:

"Belief systems embody the internal representation of the human landscape. Institutions are the structure that humans impose on that landscape in order to produce the desired outcome. Belief systems therefore are the internal representation and institutions the external manifestation of that representation. ... When conflicting beliefs exist, the institutions will reflect the beliefs of those (past as well as present) in a position to effect their choices..."

3. THE ROLE OF BELIEF SYSTEM IN INSTITUTIONAL CHANGES

Transition experience shows that existing belief systems and their evolution are essential factors in institutional and social change (Aligicja, 2006). North (2005, pp. 69-70) considers the belief system to play one of the key role in successful economic development because of the ability to create convenient artifactual structure that may productively address the new challenges

certain society faces. Failure is likely to happen if citizens and society as a whole do not have appropriate “building blocks” of their mindset and artifactual structure for facing and solving new situations. This whole process is founded on learning as a gradual process filtered by a culture, i.e. existing belief system selects the information provided by the experiences throughout a longer time period and various situations. Based on that explanation, North (2005, pp. 69-70) claims that more developed parts of the world possess the artifactual structure that addresses new challenges in a more successful way. And that creation of a favourable artifactual structure is one of the key features of adaptive efficiency and a goal of economic policy at the same time. In other words, the explanation for poorly performing economies is connected with the institutional matrix that does not provide incentives for activities that increase productivity (North, 2005, pp. 159-160). It consists of two factors: first are the vested interests and clientelism in the existing structure and second is the dispersed knowledge that requires complex institutional tools that are not yet completely understood in order to create effective markets. Greif (1994) sees cultural beliefs as an integral part of institutions and the economic performance as a reflection of the evolution of societal organisations whereby in general individualist societies prove to more efficient than collectivist ones.

Alston et al. (2010) explain institutional changes through the concept emphasising the role of power and beliefs that are strongly connected with windows of opportunity and political and economic outcomes. Political power is defined as the ability to change formal institutions, and beliefs are conventionally explained as “the subjective views of actors about the way the world works” (Alston et al., 2010, p. 2 based on North). Beliefs are also considered decisive in constraining and shaping the institutions in certain society. Incentive structure provides the foundation for economic (employment and economic growth, for instance) and political outcomes (re-election, for instance). The impact of these outcomes can be twofold: if they differ sufficiently or in several occasions from the expectation they can affect beliefs; and they can also change the relative power of the main actors. Changes in power or changes in beliefs result either in a series of smaller institutional changes or one big institutional change. A big one is usually a consequence of a window of opportunity provided by the significant difference between expectations and outcomes. Neither change nor the benefits expected happen in a vacuum; both time period and other countries are taken into account. The actors are argued to be both forward and backward looking since they behave according to the problem perceived and their solution is influenced by their beliefs and expected consequences. They make choices based on their preferences and according to their beliefs they establish the institutions. The institutions internally influence different economic and political outcomes and the outcomes are externally influenced by various events at the regional or global scene. The outcomes commonly influence the lives of the citizens in different ways.

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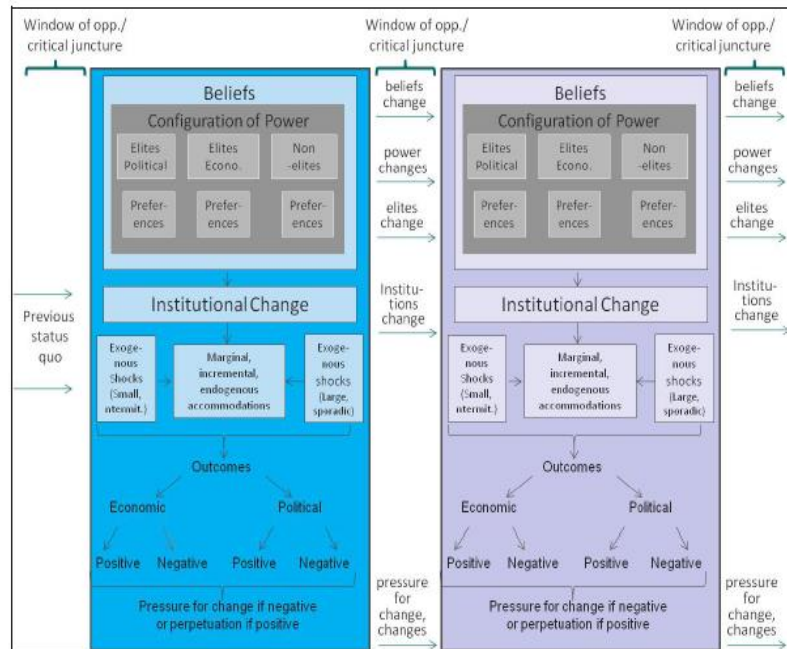


Figure 1: Power, Beliefs and Institutions: A Framework (Alston et al., 2010, p. 10)

In line with the previous thoughts where one stream of prosocial behaviour was explained through a belief based or a preference based perspective, the same perspectives can be applied to behaviour affecting institutional change. Previous paragraphs were focused on the belief system, and the other path may be Ben-Ner and Putterman's (1999) based on preferences. They claim that drivers of institutional change are often congruent with the reinforcement of norms. The threat of the large-scale institutional change is the possibility that individuals follow private, rather than social, rationality resulting in unintended consequences. The rise and fall of the institutions may be explained by sets of self-, other-, and process-regarding preferences based on genetic predispositions, culture and individual experiences. Institutions and organisations may also be effective at creating and changing preferences. This usually depends on the interactions among agents, continuity and frequency particularly in particular, transparent activities in which agents are involved, and the ability of organisations to observe and evaluate the information on individual's and group's behaviour and outcomes.

“...there is no clean separation of institutions into economic and noneconomic; and that institutions including firms and markets, both affect and are affected by values. This and the manifest potential of economic analysis, lead us to believe that the study of problems having both economic and moral dimensions can benefit not only from the economic approach in general, but also from uses of that approach which explicitly incorporate value endogeneity and the mutual influences of values upon institutions and of institutions upon values.” (Ben-Ner & Putterman, 1999, pp. 59-60)

Both belief based and preference based approaches are in accordance with Rodrik's (2009, pp. 155-156) point on the embeddedness of market economy in a set of nonmarket institutions. In the analysis of differences in countries' preferences on the policy areas in multilateral organisations and divergence in preferences among member states, Fioretos (2001) confirms endogenisation of agents' preferences that in case of companies would imply that similar companies in different capitalist societies will probably support divergent policies and institutions. This is due to the fact that institutions in a certain market economy influence policy and institutional preferences to a large extent.

North (1997, p. 7) argues that studying institutional change requires an understanding of the following four factors: the stability characteristics of institutions, the sources of change, the agent of change, and the direction of change and path dependence.

As already stated, the main function of institutions is to provide stability and continuity, but North (1997) claims that informal constraints are even more important anchors of stability. In his work on the contribution of the new institutional economics to an understanding of the transition problem North (1997, pp. 16-17) concluded:

“The Eastern European demise of communism in 1989 reflected a collapse of the perceived legitimacy of the existing belief system and consequent weakening of the supporting organizations. The result was the destruction of most of the formal institutional framework, but the survival of many of the institutional constraints. Policy makers were confronted not only with restructuring an entire society, but also with the blunt instrument that is inherent in policy changes that can only alter the formal rules but cannot alter the accompanying norms and even have had only limited success in inducing enforcement of policies... Path dependence, again, is a major factor in constraining our ability to alter performance for the better in the short run.”

4. THE ROLE OF TRUST IN INSTITUTIONAL CHANGES

Impersonality is placed centrally in the modern institutional development. Wallis (2011) distinguishes between anonymous relationships and impersonal relationships. The former refers to the interactions of people who do not know each other personally, but are aware of each other's social identity, affiliation to a certain group or organisation, and are involved in anonymous exchange. The impersonal relationships imply the same rules for everybody and therefore social identity does not play any role¹. In any case, trust contributes to an increased anonymous market exchange and diminishes the need for external contract enforcement (Dixit, 2004).

La Porta et al. (1997) explore theories of trust and its influence on the efficiency of institutions in various societies. This work is rooted in the claim that trust determines the performance of a society's institutions whereas trust or social capital is defined as “a propensity of people in a society to cooperate to produce socially efficient outcomes and to avoid inefficient noncooperative traps such as that in the prisoner's dilemma” (La Porta et al., 1997, p. 333). Their research is built on two studies: first, Fukuyama's (1995) positive correlation between trust among citizens and institutional performance and second, Putnam's (1993) negative correlation between trust and dominant hierarchical religion in a society that imposes vertical ties (Catholicism in that specific research). The general findings on the role of trust in economics note the importance of trust because of the increased cooperation and imply that it is more important for the cooperation potential among strangers or for people who do not cooperate often and that is more significant in large organizations due to the previous argument. This point may be connected with Olson's idea on inefficiency of large organisations. Probably the most important finding in the study on trust and institutions is the positive correlation between trust and government performance (La Porta et al., 1997). In line with Fukuyama's point on trust as a crucial building block of social capital, it is of great importance for institutionally underdeveloped transition countries to have the incumbents that will through their own accountable behaviour underpin the processes of trust building and therewith enhance the social capital necessary for a favourable institutional environment (Vehovec, 2002).

Trust may increase with the favourable results of the institutions in the past and therefore is not fully exogenous. Putnam's point is that trust has been formed during a centuries-long period in the horizontal dimension of the networks in the society that include both business and private

¹ This definition is not commonly used in NIE.

activities. Therefore, vertical lines of authority that are forced through a church do not have a positive impact on the building of trust in society. The evidence from La Porta et al. (1997, p. 337) confirms that statement. In addition to that, their findings suggest that a dominant hierarchical religion and distrust may be caused by some underlying factor in a society “that is detrimental to the performance of large organisations...may reflect dysfunctional institutions in a society, but if so, this is largely a long-term disfunctionality associated in part with a hierarchical religion (and not just with recent events)”. Guiso et al (2003) proved that religion and ethnic origin correlate with the level of trust and related cultural components. Their research shows that being raised in a religious manner increases a level of trust by 2 percent, and if regularly practicing a religion trust increases by additional 20 percent. When studying American citizens, they found out the cultural component affecting beliefs was transmitted over generations and can be connected with the origins of the beliefs of their ancestors despite significant time lag and new environment. The role of trust is further researched in the economic relations among states and among the companies. The research on the importance of trust in the bilateral trade among the European countries show that trust matters in all sorts of exchanges: goods, financial service, foreign direct investments. After controlling for usual trade variables, it is proven that the level of trust is positively correlated with the amount of trade between two countries (Guiso, Sapienza & Zingales, 2004). The research on trust in inter-company relations in transition societies like Hungary (Whitley et al., 1996: as presented in Jaklic & Hocevar, 1999) and Slovenia (Jaklic & Hocevar, 1999) compared to Japan shows markedly higher levels of trust in these relations in Japan than in Hungary and Slovenia, whereas in Slovenia it is lower than in Hungary. The collaboration between Slovenian companies seems to be characterised by short-term arm’s length contractual relations with low mutual dependence, and low levels of risk sharing and trust. These results can only be further analysed if taking into account contextual factors like the size of the market, international positioning, the level of sophistication of products made by Slovenian companies and the position of Slovenian companies as customers and suppliers. In addition to that, there is a post socialist heritage wherein high levels of trust can also reflect the type of relations from the previous system.

5. INSTITUTIONS AND POLICY REFORMS

It has been usually considered that policy and institutional reform complement each other; in other words that they can support and strengthen each other. But, at the same time, trying to improve incentives and economic performance by dealing with policy symptoms might have limited benefits or even backfire. The “seesaw effect” is simply described as pressing on one side that will raise the other. Hence, there is a potential caveat also for policy and institutional reforms more generally. When the problem is institutional, related to political institutions and the distribution of political power, dealing with the source of the problem rather than the symptoms is more effective but only if possible (Acemoglu & Robinson, 2000a). That is why Acemoglu and Robinson (2006) assesses that the crucial future research topics are related to unbundling institutions, institutional persistence, institutional change and policies to influence institutions. In line with that, as a result of the comprehensive analysis of transition, Roland (2000, p. 344) states that “there is still a long distance between general policy conclusions drawn from economic analysis and direct policy recommendations”.

Roland (2004) draws attention to changing conventional wisdom and its policy implications while Nye (2008) believes that despite the progress made in studying institutions the implications for policy remained without significant progress. This is due to the fact that relations between informal and formal institutions still haven’t been thoroughly understood and, in addition to that, there is only a limited ability to change slow-moving institutions. Still, the tendency to eliminate the most harmful policy recommendations should exist, and political economy might be helpful to determine the most ‘problematic’ reforms regarding the

maintenance and duration. In line with Nye, Rodrik (2009, p. 190) claims that “the literature on the institutional determinants of economic prosperity has yet to yield solid policy recommendations”. Rodrik (2009, pp. 190-191) sums up the large body of literature claiming that large-scale institutional transformation is only sometimes a precondition of increased economic growth and that high-quality institutions contribute eventually to sustained economic convergence. He stresses the distinction between stimulating and sustaining economic growth whereby solid institutions are of great importance for sustaining it once it began. Rodrik (2010) emphasises the influence development economics has had on the world of policy since the 1950s, especially when analysing the projects and initiatives of international organisations. However, he stresses the necessity of being cautious when using the findings that are relevant for the economic development. After thoroughly studying the original research Rodrik (2010) claims that the authors were aware of the distinctive features of their proposals and specifics of their claims, considering above all the time context and given circumstances. Yet, their findings are often misinterpreted, oversimplified and generalized and therefore are not applied in a proper way. Because of those inappropriate approaches and underresearched area of diagnostics Rodrik (2010) believes that development economists should primarily take a role of diagnosticians helping decision makers choose the optimal model and tools for their distinctive circumstances. Even though there are numerous studies proving the need for the long term complementarities of growth strategies with institution building, Rodrik (2009) notices that they provide insufficient policy guidance because they are still at very general level.

In practice it may be questioned whether the majority of policy failures “are attributable to ‘one-handed economists’ whose confident pronouncements are in error.” (O. Williamson, 2008, p. xxvi). Yet, one may also wonder if there was a political pressure involved: „Give me a one-handed economist! All my economists say: On the one hand on the other”.² Brousseau et al. (2011b) also note that in transition countries many economists have been active in creating and implementing institutional reform, but this topic is still underanalysed. Despite elaborate analysis on the failures in the approaches of reform in transition, Neuber (1993) believes that these valuable insights still cannot be easily translated into policy reality. Yet, they can be an incentive to consider when approaching the reforms in an oversimplified manner instead of integrating the distinctive elements of transition into a coherent policy framework, as noted by Neuber (1993, p. 527):

“The comparative advantage of economics lies in its ability to abstract from reality. Given the multiple facets of transition, however, excessive abstraction is likely to result in reductionism and partial success at best, and quite possibly in irreparable trade-offs between political and economic liberalism.”

Following the complex interaction and distinctive characteristics of slow-moving and fast-moving institutions, and our limited topics on these issues, Roland (2004) identifies three major policy implications. First, he stresses the dangers of transplanting “Best-Practice” Institutions. This issue questions the appropriateness of the “best practice” fast-moving institutions that need to be implemented with the already existing slow-moving ones. The slow moving ones have already the long social, historical and cultural tracking record and because of their persistence those past issues need to be considered when introducing new fast-moving institutions. Second, Roland highlights the importance of gradualism and experimentation: A step-by-step approach is necessary in order to be able to conduct the institutional change in a manner that allows the on time reversal and diminishing uncertainty. That way, building political and public support is much easier. And finally, the importance of policy dialogue: The discussion on policy issues is increasingly appreciated among stakeholders mostly due to the dominant attempt to avoid

²This is a much-known H. Truman's quote. Here it is used in more general terms to describe the oversimplification that the incumbents usually ask for.

“one-size-fits-all” solutions that have shown to be a common failure. Local knowledge, particularly on slow-moving institutions, is increasingly considered a part of a solution instead of a part of a problem while keeping in mind the existence of vested interests on one side and actors in the society on the other where constructive dialogue is possible.

In their study investigating the importance of institutions and policies in the post-communism transformation, Havrylyshyn and Van Rooden (2003) concluded that both institutions and policies matter during the transition period. They did not put the preference on either former or latter finding that the macroeconomic stabilisation and economic liberalisation are equally important and opposing therefore De Soto’s ideas on the priority of security of property rights over macroeconomic policy. According to Aligicia (2006, p. 30) it is therefore crucial that a reform programme does not “become a prisoner of one reform-policy vision or one theory or another”.

6. CONCLUSION

In the world of constant and unforeseeable changes, culture and culture variables as trust and beliefs represent very important impact factors in managing economic reforms. Recent post-socialist transformation in Eastern Europe and developments in less developed countries teach us that in creating public policies, so-called hidden factors, that often used to be forgotten, have to be taken into consideration. Moreover, they are „a must“ when designing public policies. That further implies multi- and interdisciplinary approaches to reform implementation in order to finess the understanding of the those (in)visible factors and their dynamics.

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SUSTAINABLE DEVELOPMENT IN SERBIA IN CORRELATIONS WITH FOREIGN DIRECT INVESTMENT

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ABSTRACT

Foreign direct investment as the most common form of international capital movements are very important factors in the development of each economy. Given the fact its characteristics in terms of the impact on long-term economic development, foreign direct investment offer the possibility of achieving goals of sustainable development. In the terms that the effects of foreign capital does not manifest in the same way at all levels in the host country, the paper gives the importance of foreign direct investment for strengt the capacity of local communities in achieving the goals of sustainable development. The point of the paper is to show movement of foreign direct investments in municipalities and cities in Serbia and to provide useful recommendations for improving the business climate to attract foreign direct investment in local communities. Starting from the fact that the needs of local communities in Serbia to attract foreign direct investment are big, at the end of the paper it is given that investment location are the most important determinants of the host country by foreign investors when making investment decisions.

Keywords: *Foreign direct investment (FDI), goals od sustainable development, local communities, determinations of FDI*

1. INTRODUCTION

Foreign direct investment (FDI) are the main form of international capital movements. They occur when an investor located in one country, acquires the assets of another. The level of realized FDI in a country depends on many factors: geographical location, stability, environment, political and economic freedoms and risks, access to local and regional market, legal security, labor and institutional construction in the country (Ibreljić, 2011, p.114). FDI can be very useful when it comes to increasing per capita welfare of the citizens of a country. However, the modern approach to foreign investment, means that it primarily must be socially responsible and economically viable. Paralell with the development of science and technology, environmental concerns has become a main topic in 70 years of the last century. Today, people are becoming aware of the fact that environmental degradation is a global problem which needs to be urgently stopped (Čajka, Jovanović, 2015, pp.87-91). Since the question of the survival is of essential importance for the further prosperity of the entire planet, there is a need to build a special attitude towards the issue of sustainability. Sustainable development attends to create a better world, balancing economic, social and environmental factors in order to preserve the

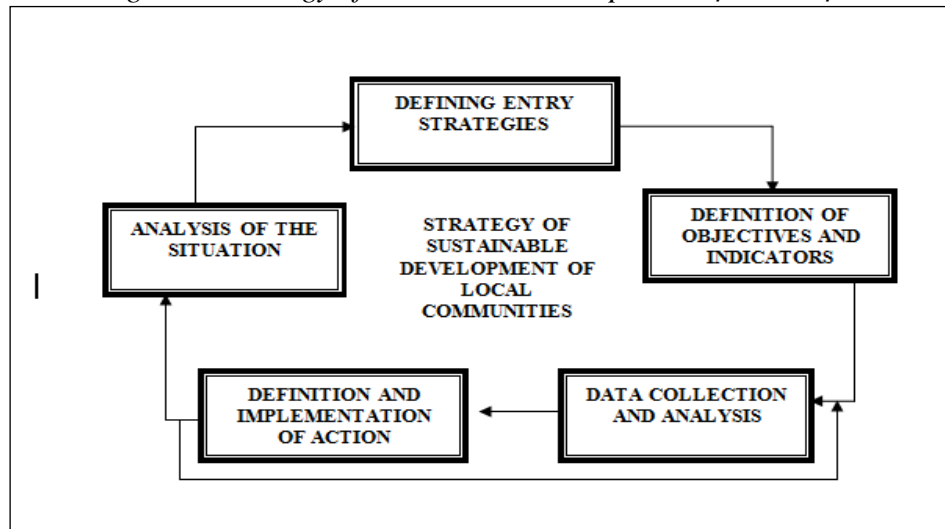
natural wealth for future generations. The main motto is to find paths of development, which will not endanger the environment (Malović at al., 2016, pp.171-175). Local economic development is not just a concept, but it is also a process. Like any other process it consists of a number of steps and alternatives. Each step leads to the final goal, but with skipping or eliminating certain steps, whole process can be compromised. By including all activities or of certain elements in the process of economic development, it can be created own path of development (Bojovic, 2012). In accordance with the foregoing, as well as at the global level and the economies, local communities in Serbia are faced with the problem of economic development, which is reflected in the lack of capital. The complexity of the problems inherited local imposes the need defining new concept of sustainable development based on attracting FDI. In order with this, FDI requires special attention to development strategies at the community level, which recently acquire a completely new feature, feature of sustainability.

2. FDI AND GOALS OF SUSTAINABLE DEVELOPMENT OF LOCAL COMMUNITIES IN SERBIA

In today's global economy, foreign direct investment is the fastest way of region development of each country. FDI are the basic mechanism of the globalization of the world economy, assuming the role of key development factors of each country. For a state in which it invests, FDI mean new jobs, increase exports, and generally, the launch of economic growth and development. On the other hand, direct investment as a form of foreign investment, enabling the investor to acquire the right of ownership, control and management on the basis of invested capital. Large or smaller companies, striving to appear on as many different world markets, which is most easily accomplished production capacity closer to desired locations. In addition to the conquest of new markets, investing in other countries can also mean faster and cheaper supply of raw materials, electricity, transportation and easier access to free economic zones. The range of potential effects of FDI on the domestic economy is very wide. The effects are mostly positive and duplex, a key piece of evidence for this is in their very dynamic growth in recent decades. All countries participating in this process recorded significant economic growth, with of course a somewhat different situation last few years due to the global economic crisis has not bypassed this segment (Jevtic at al. 2011, pp. 228-235). The term „Sustainable Development“ was defined in 1989, and officially proclaimed by the Bergen Declaration of 1990, as development that dealt with the needs of the present generations, and possibility of future generations to achieve their own needs and to develop themselves. The essence of the concept are the interaction of environmental development and mutual coordination complementary with development and environmental policy, which respected of ecological systems. At the local level, sustainable development implies that local economic development supports economic and social life, using the talents and capabilities of the local population. The sustainable development benefits from the development community is equally distributed to all social groups and ensure their longevity (<http://lokalniodrzivirazvoj.webs.com/>). In defining and implementing sustainable development, the most important step is to determine goals. This goals include a description of the actions that should be achieved to attain the desired look that is defined by a strategic future vision. Achieving goals requires a specific strategy for the local community, which is implemented through several stages (Knežević at al. 2009, p. 116):

- 1) analysis of the situation,
- 2) defining strategic guidelines,
- 3) defining objectives and indicators of sustainable development,
- 4) data collection and analysis, and
- 5) defining and implementing actions.

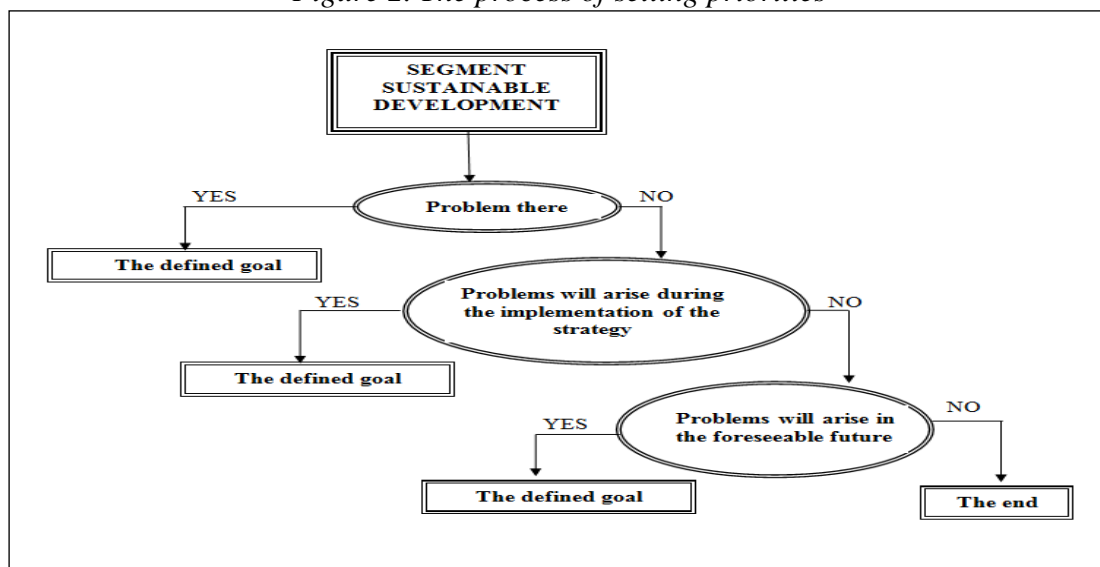
Figure 1. Strategy of sustainable development - phase of process



Source: Knezevic, Zivkovic, Puric, Janicijevic, 2009

Figure 2 represents the central phase of the strategy of sustainable development, the phases in which goals should be defined in order to be achieved, but also the mechanisms of monitoring their implementation. In order to define the strategy of the local community, it must be taken into account the fact that it is equally important to recognize problems, but also to recognize the opportunities and benefits for the local community. As the time and resources for strategy implementation are limited, it is inevitable to decide which aspects and to what extent, should be given priority when defining the objectives. Access is shown in Figure 2. Figure 2 represents is there a problem or not, when it is making a decision that basis on the segment of sustainable development. It can be seen that if there is a problem, it is necessary to define an appropriate objective of sustainable development to the local community and commit to work on its solution. If the problem still exists, or it will certainly occur in the time of period for which is strategy defined, it is necessary to define targets of problem that will prevent or mitigate its consequences. In the case when the problem is expected in the foreseeable future, it requires taking early actions to prevent developing of problem.

Figure 2. The process of setting priorities



Source: Knezevic, Zivkovic, Puric, Janicijevic, 2009

The advantages of this approach are that it is clear and easy to use. But it still does not have solution of the problem that management has, in the case when it is necessary to decide which problem is priority. These disadvantages can be solved by using the approach that takes into account the probability of occurrence of a problem (phenomena, events), its consequences and effects. Such approaches are define the character of a problem that has been identified in the situation analysis, defining it as a function of probability. The possibility of a problem, or occurrence that is observed is called the probability, while the effect is presented as the consequences of their occurrence. The objectives of sustainable development should have some general characteristics: they must be clearly defined, measurable and achievable. For example, the goal "How to be more attractive for foreign investment at the local level"; must be clearly defined, in terms of what kind of concrete investment are thoughts (for example Greenfield, or other). Therefore, methods for monitoring and measuring of the goals achievement must be clearly defined, too. But it is important for the goals to be realistic and achievable for a certain period of time.

3. DYNAMICS OF FDI INCOME IN SERBIA

One of the basic characteristics of the countries in transition, such as Serbia, is the low level of domestic capital accumulation, which stipulates the need for intensification of FDI inflows. After initial skepticism, the mid-nineties, the European countries in transition have begun to compete with each other in creating a more favorable investment environment to attract larger FDI. If it takes into account that the war of nineties imposed sanctions and the political turmoil, Serbia has consistently been shunned by foreign investors, as a destination for FDI. More intensive investment in Serbia started after 2000 (Stankov, Markov, Milošević, 2015, pp. 61-69). The trends of FDI inflows in local communities in Serbia has significant variations, which is typical for developing countries, caused primarily because of to the implementation of the transition process and also because of the global economic and financial crisis (Table 1) (National Alliance for Local Economic Development (NALED))

Table 1. FDI in Serbia, by municipalities and cities (2012-2016)

Municipalities / city	2012	2013	2014	2015	2016	Total EUR	Municipalities / city	2012	2013	2014	2015	2016	Total EUR
Ada					4.641.600	4.641.600	Jagodina	62.500.000	4.200.000				66.700.000
Alibunar					6.600.000	6.600.000	Kikinda					10.000.000	10.000.000
Aleksinac		4.800.000				4.800.000	Knić		5.200.000				5.200.000
Apatin	27.000.000			1.000.000	470.000.000	498.000.000	Knjaževac	1.900.000					1.900.000
Bač		3.000.000			10.000.000	13.000.000	Koceljeva		1.800.000				1.800.000
Bačka Palanka	2.000.000				15.700.000	17.700.000	Kovin					2.500.000	2.500.000
Bačka Topola					5.900.000	5.900.000	Kula					15.000.000	15.000.000
Bački Petrovac					800.000	800.000	Kuršumlija		4.000.000				4.000.000
Batočina	6.000.000				3.000.000	9.000.000	Lučani			1.200.000			1.200.000
Beočin					3.586.702	3.586.702	Mali Iđoš		1.900.000				1.900.000
Bečež		1.000.000	30.000.000			31.000.000	Mionica					700.000	700.000
Bela Crkva		1.500.000				1.500.000	Niš	20.000.000	3.500.000			1.600.000	25.100.000
Beograd					114.000.000	114.000.000	Novi Bečež					700.000	700.000
Beograd-Noví Beograd	45.000.000	4.600.000			120.700.000	170.300.000	Novi Sad					4.000.000	4.000.000
Beograd-Palilula		30.000.000			24.000.000	54.000.000	Ođaci					15.666.157	15.666.157
Beograd-Savski Venac			55.000.000		600.000	55.600.000	Paraćin	7.500.000					7.500.000
Beograd-Stari Grad					152.000.000	152.000.000	Peđinci	10.000.000					10.000.000
Beograd-Surčin		40.000.000				40.000.000	Plandište					1.925.000	1.925.000
Gornji Milanovac	2.500.000					2.500.000	Ruma	1.600.000	4.000.000			31.426.765	37.026.765
City Kraljevo	9.300.000					9.300.000	Senta		2.000.000				2.000.000
City Kragujevac	121.400.000	2.000.000			500.000	123.900.000	Smederevo		18.000.000			150.000.000	168.000.000
City Leskovac	6.000.000				500.000	6.500.000	Srbobran					450.000	450.000
City Novi Sad	151.000.000	1.000.000			45.000.000	197.000.000	Sremski Karlovci					8.000.000	8.000.000
City Pančevo	1.000.000				825.500.000	826.500.000	Stara Pazova	5.000.000		18.500.000		99.500.000	123.000.000
City Piroć	3.800.000				8.750.000	12.550.000	Subotica					39.600.000	39.600.000
City Sombor	1.500.000				73.775.000	75.275.000	Surdulica	3.000.000					3.000.000
City Sremska Mitrovica		3.000.000	2.000.000			5.000.000	Švilajnac					900.000	900.000
City Sremska Mitrovica	20.000.000				88.700.000	108.700.000	Šid					8.800.000	8.800.000
City Šabac					12.000.000	12.000.000	Titel					200.000	200.000
City Valjevo	20.000.000					20.000.000	Vlasotince					700.000	700.000
City Vranje	29.000.000				100.000	29.100.000	Vršac	3.000.000				659.000.000	662.000.000
City Čačak				10.000.000		10.000.000	Čuprija		10.000.000				10.000.000
Indija	16.000.000	1.500.000	54.000.000		113.000.000	184.500.000	Zrenjanin	10.000.000				86.100.000	96.100.000

Source: National Alliance for Local Economic Development (NALED)

From Table 1 it can be seen that Vrsac is the municipality with biggest foreign investments in the period from 2012 to 2016, in Serbia (662 million euros), while the city of Pancevo is on the second place with 526.5 million euro. The Titel is the municipality with the lowest FDI inflow, where it flowed only 200 thousand euros. From the same table it can be seen that FDI in Serbia is characterized by uneven distribution, which indicates the necessary analysis of the business environment in all municipalities of country.

4. DETERMINANTS FOR ATTRACTING OF FDI IN SERBIA

Based on the analysis of FDI in Serbia, but also taking the fact that the competition among developing countries in attracting FDI is large, it can be concluded that basic economic conditions for attracting investment is not enough to encourage foreign investors to come in Serbia. Starting from the fact that the interest of foreign investors has a certain risk, the areas that investors avoid are unstable economy, national currency, social unrest, inconsistent of monetary and fiscal policies (Kula, 1998, p.19). Therefore, without a favorable business environment, Serbia will not have foreign investment, especially when it comes to greenfield investments. Countries that its overall policy environment is to ensure stable conditions for the smooth and profitable operation will certainly faster and easier for attracting FDI, than the countries where the investment environment is not sufficiently favorable. According to this, the essential determinants of the host country for foreign investors, include political and economic framework of the country as well as measures to facilitate investment and business. The importance of individual determinants depends on the motives of the implementation of FDI. Table 2 shows the determinants of FDI in host country (Marjanović, 2011, pp. 215-220).

Table 2. Determinants of SDI host country

Determinants of the host country	Type of FDI to the investor's motives	The most important economic determinants for investing capital
I. Political framework <ul style="list-style-type: none"> • economic, political and social stability • regulations regarding entry and operation in it • standards of treatment in the country of affiliation • Policies functioning and structure of the market • international agreements on foreign investments • privatization policy • trade policy and compliance with the policy of foreign investment • tax policy 	The search for market	<ul style="list-style-type: none"> • market size and per capita GDP • market growth • access to regional markets • the specific tastes of consumers of the earth • market structure
II. Economic framework	The search for resources	<ul style="list-style-type: none"> • raw material • low labor cost of unskilled labor • professional work • technological, innovative and other acquired resources • physical infrastructure
III. Easing investment and business <ul style="list-style-type: none"> • Investment promotion • Incentives for investors • reduction of administrative barriers • services following the investments 	The search for efficiency	<ul style="list-style-type: none"> • cost of resources and assets • other input costs (transport and communications costs to / from and within the host country, the cost of other intermediate products) • membership in regional integration applicable to the establishment of regional corporate networks

Source: Marjanović, 2011.

The decision for investing outside the country, imposes the need for a detailed analysis of the business environment of the host country. Detailed analysis of the business environment involves primarily an analysis of the economic environment of the host country (the size and structure of the population, the analysis of the level and mode of distribution of income and wealth). Apart from analyzing of the economic environment it is necessary to analyze the cultural environment or its individual elements (language, education, religion, aesthetics, habits and customs, etc.). Special attention must be paid to the analysis of the legal and political environment, when a country is going to make investment decisions. So it can be concluded that foreign investors are following the political situation, laws, procedures and regulations in potential host countries, when they are making decisions of investment (Sinanagić at al. 2013, pp.107-124). This is a very important, because foreign investors can see the potential risks on that way. The economic development, even without the knowledge of the concept of sustainable development is impossible without taking into account other elements of social development. That fact is based on survey of investors conducted in Serbia in 2008, in which they are showing these characteristics (Bojovic, 2012) :

- the quality of the human resources,
- political stability,
- quality and accessibility of infrastructure,
- quality of life and
- ease administrative procedures.

Undeveloped nations – Serbia and its working class

However, workers based in undeveloped nations cannot be the reason behind the stagnation of, or decrease in workers' wages from developed countries. On the contrary, the self-expanding logic of capital in its hunger for profits is the main reason for the international differentiation of the working class. This differentiation is expressed in the deskilling of workers, in the differentiation of the labor process (and patterns of production and reproduction of labor power), damage to the living labor fund due to super-exploitation, the establishment of international wage differentials etc. Capital prevents the international unity of working classes by dividing them, "taking advantage of areas of uneven development and amplifying existing schisms"(Palloix, 1977, p. 123).

Opposite investment promotion, which applies only to placement of the benefits and conditions of investment in a particular municipality, attracting investments is a broad term that includes improving the local business climate and infrastructure, a variety of incentives and benefits to investors (price reduction for lease of land, exemption from taxes, etc.). There are several political statements regarding FDIs circulating in the Serbian public sphere. The first one stubbornly repeats that foreign investors come to Serbia because of Serbia, its people and their knowledge. This 'argument' mainly appears in politicians' discourses, as well as among the media and press. The second statement asserts that FDIs bring technological progress by creating positive spillover effects. The term spillover effect refers to the indirect influence of FDIs on the host country, where statistical associations between transnational's and productivity improvements in local domestic firms are interpreted as resulting from technology transfers between foreign affiliates and domestic firms. The dominance of labor intensive production in Serbia hardly confirms this to date. The third statement asserts that FDIs positively affect the national market by boosting competition. However, it is well known that foreign companies in Serbia are incorporated in networks maintaining a monopoly, and that they import almost all of their raw materials and intermediary inputs from abroad. In doing so,

they directly eliminate domestic suppliers, thus exhausting and petrifying the whole economy (Radenkovic, 2016, p. 67). Regimens to the fact that Serbia is characterized by uneven development of its regions, it is necessary to pay more attention to the work force, ie working class in less developed regions and in less developed Serbian municipalities and cities. Human resources are irreplaceable. It is important for Serbia not to allow its young people leave the country, and therefore it is necessary to take urgent measures to prevent the brain drain from Serbia abroad. However, that is another question, but the fact is that country can not be able to attract foreign capital without its own intelligence.

5. CONCLUSION

The activities of a municipality ie. town for FDI are determined by the dynamism and competitiveness of its business sector. Therefore, the development of entrepreneurial spirit is also a factor for attracting FDI and for achieving the goals of sustainable development of local communities. Analysis of FDI by municipalities and cities in Serbia indicate a growing movement in the period. However, despite these facts, the performed analysis indicates the solution to the problem of risk that foreign investors stand out as significant limitations when making investment decisions. As a candidate for EU membership, the prerequisites for attracting foreign investors in Serbia are: the establishment of political and macroeconomic stability, trade liberalization and solving the problem of corruption.

Therefore, the continued economic, institutional and legislative reforms throughout the territory with the strengthening of infrastructure networks in local communities enable the creation of a favorable investment climate. The fact that the capital is in the process of globalization one of the most mobile factor that can speed up the economic development of the country in which the funds invest, but also a factor for the creation of a favorable institutional environment, it is a long term process that needs to maximize the positive effects and minimize the negative effects of foreign investment, too. The analysis made in this paper indicates that Serbia is gradually becoming an attractive investment destination, thanks to its many advantages. Finally, in order for Serbia to create the conditions for long-term economic and sustainable development of local communities, it is necessary to take advantage of the globalization process benefits and on that way try to attract the inflow of FDI in the host country.

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COMPARATIVE ANALYSIS OF CREDIT RISK ASSESSMENT IN THE ASSESSMENT OF BUSINESS PERFORMANCE OF BORROWER - SERBIA – BOSNIA AND HERZEGOVINA

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ABSTRACT

The aim of preparation of this work is reflected in the comparative analysis of parameters and elements that are used in the function of the evaluation of business performance of the borrower as well as in the analysis of ways and methods to minimize credit risk in order to reduce the number of nonperforming loan requests by the bank. We are witnesses to the fact of the growth of so-called "bad loans" due to inadequate assessment and evaluation of the possibilities for repayment of the loan. Therefore, this paper is to point out the most important elements to be analyzed in order to adequately assess creditworthiness.

Keywords: *banks, liquidity, performance, capital adequacy, risk, nonperforming loans*

1. INTRODUCTION

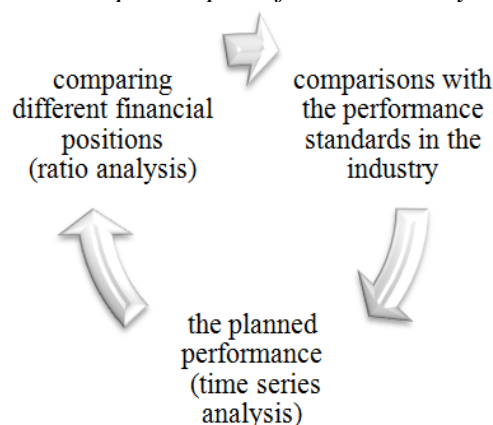
Depending on the general economic environment, banks in each economy can identify the impact of numerous factors that can lead to improved financial potential of the Bank, as well as to the insufficient use of the same. In this sense, it is necessary to largely determine what certain factors that can ensure that investments are brought into balance with the financial potential of banks, all in order to maintain financial performance at the planned level. In times of financial crisis, this problem is obvious because there is a decline in demand for bank loans, which is caused by an increase in unused credit potential, which leads to a decline in profitability of the bank. For example, if the bank insufficiently uses its credit potential, then the bank's profitability declines. On the other hand, if the bank over-uses its credit potential, it may enter a zone of insolvency. The practice of banks, as well as data research shows that credit imbalances is far more often case than the credit balance, primarily because invested funds in loans are far greater than the ability of real lending. Performance of the banking sector depends on the movements of figures of main macroeconomic aggregates. Macroeconomic environment or environment in which banks operate, is a set of factors that influence on banking actions in the direction of business activities of banks, as well as on the performance of banks. (Mitrović, Nestorović, Ljubić, 2016). The operations of individual banks which implies the way in which funds are provided, how they are used and how they are managed is mainly similar in most countries. Centuries back, the banks are making their profits primarily by approving loans, which represent assets because it brings revenue, as opposed to companies for which these loans represent liabilities - sources of funding. Loans are generally less liquid positions in relation to other asset positions because it is not possible them to be converted into cash until maturity. If, for example, the bank approved a one-year loan, it cannot recover the assets until maturity, which is one year in this case. Approval of the loan carries a risk of default, which is higher

compared to other assets. Following the escalation of the financial crisis, as a result of the credit boom, an interest in methods and ways of minimizing credit risk increased, both from the regulatory authorities, the banks themselves and other experts. Banks as institutions that operate in the financial market represent a link between lenders and borrowers in terms of financial assets. As part of their primary activities, banks collect free funds from those entities that have the surplus funds, convert these assets to maturity structure and place them to those entities that have a need for additional sources of funding. When placing funds, banks need to pay attention to whom the funds are approved and at what interest rate. In this context, it is necessary to evaluate the business performance of the borrower, namely: liquidity, solvency and the turnover of individual elements of assets and liabilities, as well as traditional indicators of performance of the borrower. We are witnessing turbulent business operations on the global economic scene, the more and more extensive changes both of the awareness and preferences of consumers, the negative consequences of globalization, shortening the technological curve and similar. As a result, companies (borrowers) are imposed a permanent change and continuous improvement of products and business assessments. Investments in innovation are not always possible to be provided solely from own resources. Therefore, companies address to the banks and other financial institutions for additional financial resources. As a result of the growing need for additional funding, as well as from increased criteria for the granting of loans by the bank, and other motives, companies often resort to cosmetic bookkeeping to provide financial statements were in a function of the positive opinion of the credit analysts. An integral part of the process of financial reporting is to use financial information from the balance sheet addressees (Škarić, Tatić, Medojević, Samardžić, 2010). This is because users, respectively their information needs determine the content of the information that management will place. Therefore, in order to protect the bank from risk, credit analysts in the context of the assessment of credit scoring also take into consideration the analysis of the business plan for which funds are requested, projections of revenues and expenditures for the entire period of loan repayment as well as the effects of the planned investment on the environment and the economy as a whole. In this way, the information risk is decreased and this increases the credibility of the presented report, which must be supplemented by the auditor's report.

2. ASSESMENT OF CREDIT RATING OF THE BORROWER

Financial analysis provides a quick and relatively simple insight into business by comparing different financial positions (ratio analysis), then comparisons with the performance standards in the industry, and with the planned performance (time series analysis).

Diagram 1. Basic steps adequate financial analysis (by authors)



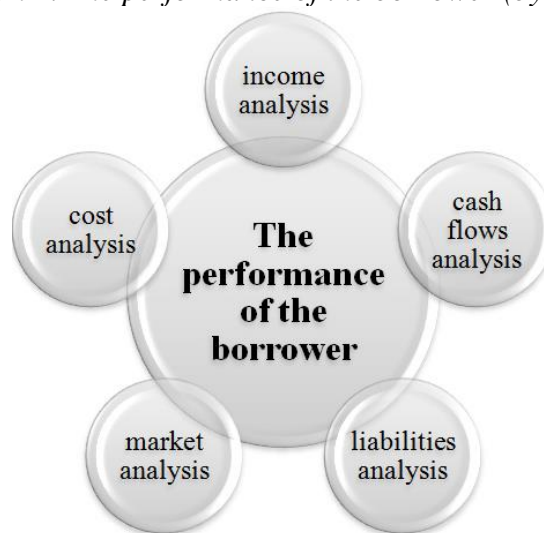
There can be as many financial indicators, respectively ratios numbers as the items in the financial statements. The essence consists in the use of indicators obtained on the basis of the relationship of certain balance sheet items and their comparison with standard, theoretical and empirical sizes. Number of indicators used for analysis and credit rating is different and depends on the analyst, the methodology applied and the type of activities that engaged in an entity which is subject to analysis. But in banking practice, the choice of indicators that can be used in the evaluation of the creditworthiness of the bank have been defined, inter alia are implemented within the framework of the Basel standards and as such have found their application in practice and theory.

In modern conditions, the volatility of variables that have a significant impact on the bank's operations and its position on the market requires an adjustment in the way of implementation, structure and quality of jobs. In this regard, there is no doubt that the general framework for the implementation of these activities is the basic principle of banking operations, which stems from the very essence of banks as businesses and market participants. Very important thing is the ability of the state and market stability. Credit inability of the country prevents normal foreign trade and foreign financial communications company, which has a negative impact on economic stability and economic growth. To maintain its creditworthiness in the financial markets, the state should pursue a policy of a balanced budget. Therefore, the state needs every year to plan the equality of public revenues and public expenditures, regardless of the phase of the economic cycle in which there is a degree of economic imbalances. (Gnjatović, Stakić, Nestorović, 2015)

Defining the phenomenon, instruments and parameters of internal and external environment, analyzing their interdependencies and measuring the impact on the position and results of operations of banks, is the process of optimization which is necessary for making quality business decisions. In the process of defining the shape and dimensions of influence from the environment represents the business policy of the bank in all its areas and respecting the principles of banking operations the optimization of objectives and positive effects on the balance sheets of banks is achieved (Rađenović, 1993). Under pressure of globalization, regulatory changes, liberalization of capital flows and other factors, banks are changing the way they run their business. These changes also impose different ways of evaluating the results achieved. On the other hand, the question is asked which banks are more successful, more efficient ones that better control their costs or those more profitable, that have more power of the fertilization of invested capital. At this point, there is no general consensus as to which concept should be given primacy, nor consensus on indicators, which express these concepts. However, in the literature, more attention is paid to these problems and discussions related to them are becoming more frequent. The reasons why these issues are included in the focus lie in the fact of the accelerating development of services offered by banks, as well as the increasing number of different financial institutions engaged in banking activities (Ljumović, Marinković, Pejović, 2011). The compliance of the bank with the above principles is not about tracking events and the gradual balancing, but it is a multi-layered analysis and monitoring of the result of making decisions on business policy (Ljumović, Marinković, Pejović, 2011). Interpretation and evaluation of indicators (comparison with selected standard or trend analysis) is the phase that follows one of the most important stages of financial analysis. Based on the information on the value of individual ratio numbers it is not possible to confer a general impression of the business success of the borrower. This means that a single ratio by itself does not mean anything and that it is necessary to carry out a comparison of indicators obtained in several successive periods and comparison with the standards set out for a specific sector. If viewed as a stand-alone indicator, ratio numbers do not meet all the requirements and interests of analysts.

Research conducted for the purpose of this study shows that 100% of the credit analysts surveyed responded that traditional ratio analysis based solely upon by financial reports is not sufficient to assess the creditworthiness of the borrower. In other words, the traditional methods of assessment of the creditworthiness in modern circumstances will not lead to a proper assessment of the potential borrower and will not affect significantly to minimize the risk of credit default. In this context, 75% of credit analysts pointed out that in addition to traditional financial analysis they use other models defined by the bank as 5C and FDM model. However, as for the additional analysis in assessing the performance of the borrower, a special emphasis is to be put on the following: income analysis, cost analysis, cash flows analysis, liabilities analysis and market analysis.

Diagram 2. The performance of the borrower (by authors)



However, in the selection of the borrower and loans pricing, in addition to financial data, all respondents indicated that the company's business strategy is crucial and association of strategy with the purpose of the loan. On the other hand, although respondents indicate the great importance of other relevant data, only 30% of respondents cited other reports are relevant for making business decisions of which are:

- trial balance,
- carrying cards of obligations
- carrying cards of receivables and
- a report from the central credit registry.

Based on the research we can conclude that banks take into account the assessment of business performance of the borrower and manage credit risk adequately, all for the purpose of minimizing the possible emergence of nonperforming loans.

3. CREDIT RISK IN THE VOLATILE MACROECONOMIC ENVIRONMENT

The degree of economic development of a country significantly determines the sources of funding of companies that operate within it. With the growth of financial market development, diversification of financial assets, increasing traffic trading of a wide range of high-quality

securities as well as the existence of a properly implemented legislative framework, companies have greater possibilities to finance their own growth and development. As a result of the growth and development of individual companies, there is prosperity of the economy as a whole. In conditions of underdevelopment of the financial sector, companies mostly rely on bank loans, which in addition to its own sources, is the only source of funding. Economic environment as a portfolio of the function of different macroeconomic variables, defines the direction of movement and strategic direction of companies' operations. Unstable macro economic conditions carry with them the lack of inflow of investments, the possibility of obtaining different types of capital stock, a high level of risk, lack of new profitable ideas as well as limited movement of cash flow in the economy and its relocation outside of legal flows. For economic growth and development of the real and financial sectors it is necessary to create a business environment that is stable and enough stimulating for all participants. In this regard, the development of modern market economy is associated with the development of banking and development of financial institutions, as the financial sector has an important role in traditional trade flows. In order to accomplish the economic environment is characterized by a satisfactory level of stability, it is necessary to organize the actors and their mutual relationships in a consistent system, which, vice versa, will empower the harmonization of relations between individuals and institutions within the same. In this regard, it is necessary that the state plays an active role in regulating and harmonizing these relationships, through measures at its disposal, in a function of the consolidation of the budget deficit and inflation, establishing fiscal stability, balancing the interest rates and to ensure the stable growth of domestic product (Mitrović, 2014). Therefore, the collapse of the banks has a greater impact on the economy than the destruction of any company, so insolvency and illiquidity of banks does not affect only banks, but also shareholders, borrowers, depositors and other institutions that borrow from the banks (Rankov, Kotlica, 2013). Numerous analyzes have shown that banking bankruptcy are more harmful to the economy than other types of bankruptcies of financial institutions, as the liquidation of one or more banks quickly spread to the real sector of the country, fuels the crisis of balance of payments and increases the cost of gross domestic product (Rankov, Kotlica, 2013). However, there have been findings that dated many years ago warning us that exactly the basic characteristics of the banking system lead at the same time to the periodic volatility in the market. The regulation of the banking sector with international standardization reduces the likelihood that individual financial institutions become illiquid and insolvent. Market of countries in development, such as Serbia, is distinguished by bank-centered financial markets, insufficient circulation of securities trading on the stock market and the lack of adequate strategies to attract foreign capital. As a consequence, there is insufficient use of other sources of funding. Macroeconomic environment or atmosphere within which banks operate is a set of factors that influence their actions to the direction of business activities of banks as well as to their performance success. With recessive movements in the economy (which characterized the global economy at the beginning of 2008), the banking capital is experiencing erosion because of losses in credit portfolios (nonperforming loans). At the same time, banks are required to hold a higher amount of regulatory capital in relation to the total level of loans, which is likely to reduce the level of credit activity of banks, and further deepen the crisis in economic activity. However, the pro-cyclical effects of macroeconomic fluctuations will vary from country to country. The strongest effects will be felt by economies based on banks, while the impact on the economies based on the financial markets will be less (Vuksanović, Todorović, 2008). Macroeconomic environment of the Republic of Serbia and Bosnia and Herzegovina is characterized by a greater degree of convergence of macroeconomic variables. In other words, the value of gross domestic product, inflation rate, unemployment rate and other indicators are at a relatively similar level. The comparison of these indicators shows that the Serbian economy fluctuated in its economic growth, as the economy of Bosnia and Herzegovina (table 1.)

Table 1. Real GDP of Bosnia and Herzegovina and Republic of Serbia (IMF, World Economic Outlook, 2016)

	Bosnia and Herzegovina	Republic of Serbia
	<i>(Annual percent change)</i>	
2008	5,6	5,4
2009	-0,8	-3,1
2010	0,8	0,6
2011	0,9	1,4
2012	-0,9	-1,0
2013	2,4	2,6
2014	1,1	-1,8
2015	3,2	0,7

As far as the movement of the value of the consumer price (table 2), we can say that the situation is similar. In both economies changes occur.

Table 2. Consumer Prices in Bosnia and Herzegovina and Republic of Serbia (IMF, World Economic Outlook, 2016)

	Bosnia and Herzegovina	Republic of Serbia
	<i>(Annual percent change)</i>	
2008	7,4	12,4
2009	-0,4	8,1
2010	2,1	6,1
2011	3,7	11,1
2012	2,0	7,3
2013	-0,1	7,7
2014	-0,9	2,1
2015	-1,0	1,4

In this context, these two macroeconomic environments were selected as environments in which the importance of congruence or deviation criteria is examined for assessing the borrower's credit rating. The survey was conducted on a sample of six banks operating in the territory of Bosnia and Herzegovina and 6 banks operating in the territory of the Republic of Serbia in the period from 15 March to 15 April 2016. This survey covered a total of 12 credit analysts who personally filled in the questionnaires. Studies have shown that banks tested extremely take into account the ways and measures for risk management. The research is divided into two parts, first part includes information based on the main documents in decision making process in banks about grants, and the second part of the research relates to methods of minimizing risk. Research shows, that when companies applying for a loan, banks ask for relatively similar documentation in both countries. Table 3 shows that all credit analysts answered that the Financial Statements are integral part of the documentation for collecting relevant information about the operations of the company. Then, the credit analysts of the banking system of Bosnia and Herzegovina in addition taking into consideration the gross balances, list of receivables and list of obligations.

Table 3 Documentation for banks decision making process¹ (research of authors based on own survey)

	Bosnia and Herzegovina	Republic of Serbia
	Number of banks	
Financial statements	6	6
Balance Sheet and Income Statement	0	-
Gross Balance, list of receivables and list of obligations	3	-

On the question regarding the documents to be taken into consideration when making assessments about the credit worthiness of the borrower, all credit department respondents agreed that the Cash Flow Statement is of the utmost importance for making decisions on granting loans, while in Bosnia and Herzegovina 67% of respondents said that it is very important and 33% said it is not necessary. The significance of this report lies in the monitoring of cash flows and movement of cash towards the various activities of the company.

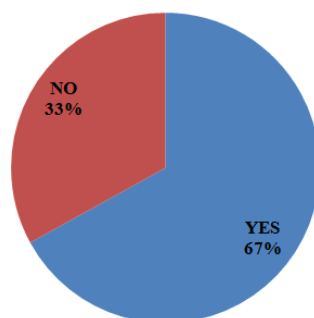
In evaluating the data from the required financial reports 100% of respondents in Bosnia and Herzegovina and 67% in Serbia replied that they take into account the data from the report of the three previous years, while 33% responded that yet more relevant is the period of the two previous years.

When question was asked about the diversity of data contained in financial statements, in support of the assessment of solvency, respectively whether some other documents should be used in support of assessment of credit rating of the borrower, the study indicates that additional documentation differs in banks in Bosnia and Herzegovina and Serbia. Namely, as the most important documents the loan officers in Serbia stated the following: Credit Bureau Report, Report on the freeze on accounts, Competition Analysis, Report on association with other legal entities, Report on length of business and Report on borrower's activity. On the other hand, officers of banks in Bosnia and Herzegovina cited the following as the most important additional documents: Business contracts of work performance, Report on company's activity, References of previously performed work and documents confirming whether there are lease contracts, contracts of possession of licenses, patents and similar. When respondents were asked to give their answer to the question of how the financial reports are important when deciding on minimization of credit risk, all respondents stated that the financial reports play a significant role. All respondents answered the same way when it comes to the importance of business strategy with a purpose of the requested funds. All respondents said they are always looking for business performance strategy when evaluating the creditworthiness of the borrower. At the end, to the question whether the traditional ratio analysis is sufficient for assessing the credit worthiness of the borrower, all respondents in the Republic of Serbia responded affirmatively, while respondents in Bosnia and Herzegovina had divided opinions. How much the moral hazard is involved in the decision-making process is another important factor for banks in the decision making. Research has shown that in both banking sectors situation is identical. Two-thirds of respondents indicated that the degree of moral hazard is completely excluded, while only one-third of respondents indicated that it is not completely excluded.

¹ Multiply answers were possible during the questionnaire

Diagram 2 - Level of moral hazard in Bosnia and Herzegovina and Republic of Serbia
 (By authors)

Level of Moral Hazard



When it comes to other methods of determining credit worthiness of the borrower, other than methods which are based on financial reports and traditional ratio analysis, respondents gave different answers. This supports the fact that decisions are made through various methods in order to minimize the risk.

Table 4 - Depiction of analyses used in the assessment of the creditworthiness of the borrower
 (The author's study based on questionnaires)

Bosnia and Herzegovina	Republic of Serbia
Analysis of cash flow projections	Analysis of cash flow projections
RISK Scoring	Analysis of reputational risk
Analysis of revenues and liabilities	Analysis of qualitative factors
Market analysis	Analysis of activity
FDM Model	
Analysis of activity	

At the end, when it comes to measures to protect against the risk of inability to return loans, respondents fully agreed that securities in the form of promissory notes, mortgages and other forms of collateral and guarantee as an alternative sources of repayment of the loans are the most important.

4. CONSLUSION

Risk management and its minimization is the primary purpose of the credit operations of banks. In a turbulent environment and due to the volatility of value of different macro-economic aggregates, risk management for banks represents the basic skill of business. Therefore, in order to manage to minimize their credit portfolios and reduce the likelihood of occurrence of nonperformance loans, banks need to change the perception of the assessment of creditworthiness of borrowers. As the study showed, banks still mainly rely on the information they receive from the business report of the borrower. But evident is the trend and progress that in addition to this, banks base their analyses on other documents which more closely describe the way of recording positions that are important for banks, such as receivables account and

obligations account. In this way, banking analysts can determine the potential collection rate of the borrower's receivables and evaluate the level of its liquidity. Also, banks base their analysis on data of cash flow from the Cash Flow Statement, as well as on the derived projections of future cash flows. Finally, we conclude that banks properly manage risk when assessing the credit worthiness of borrowers by further analysis of the borrower's performance and by taking adequate means of collection in the event of insolvency of the borrower. Also, analysis of the activity and industry the borrower belongs to, tells us that banks pay special attention to the dispersion of credit risk.

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LITERATURE:

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FOREIGN DIRECT INVESTMENTS AS WELL AS SIGNIFICANT FACTOR IN THE ECONOMIC DEVELOPMENT

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ABSTRACT

Investments are crucial for economic growth. In the contemporary environment of intensive international financial connections and with the expansion of transnational companies a substantial part of investments are made by foreign companies. Beneficial factors for foreign direct investments are natural resources, the geographical position, specifics of the labour force, technology level and other specific for certain countries conditions. The intensive globalization process in the last decades contributes for an easier movement of capital by cutting restrictions. Object of the research are investigating the nature of FDI in Serbia and Bulgaria and their role for economic growth and the effects they have local economies.

Keywords: *Investment, foreign direct investment, economic growth, Serbia and Bulgaria*

1. INTRODUCTION

Investments are crucial for economic growth. In the contemporary environment of intensive international financial connections and with the expansion of transnational companies a substantial part of investments are made by foreign companies. Beneficial factors for foreign direct investments are natural resources, the geographical position, specifics of the labour force, technology level and other specific for certain countries conditions. The intensive globalization process in the last decades contributes for an easier movement of capital by cutting restrictions. Object of the research are investigating the nature of FDI in Serbia and Bulgaria and their role for economic growth and the effects they have local economies.

2. ESSENCE AND TYPES OF FDI

Investments lay the ground work for improving and expanding production. They are means of expanding and sustaining the capital of a firm. Rational usage of investments assists for economic growth and expanding of national wealth and GDP. Investments are beneficial for the technical progress- they are used for upgrading the equipment and technologies so that unused upto this moment resources can be used in production. Investments in science and research and development stimulate development, implementation of innovations and efficient usage of production capacities. 1- Stoykov I. International investment policy, Svishtov 2005 Investments contribute for the spreading of scientific and technical achievements from company to company and land to land. New skills organisational entities and management methods are being adopted. The influence of FDI on economic growth and is carried out in interaction with other factors: labour force, capital, foreign economic relations, natural resources. There are mutual benefits. The country from which is the investor receives income taxes and the country where it is invested improves its financial potential and the welfare of the citizens. According to the UN the purpose of FDIs to acquire a lasting share or effective control over a company that is functioning outside the investor's country.

3. HOW FOREIGN DIRECT INVESTMENTS ARE CALCULATED?

The flow of Foreign Direct Investments is calculated when the the outflow of capital including amortisation and damages are subtracted from the investments mass.

Foreign Direct Investments are needed when:

- there is a need for building new capacity;
- development of new productions;
- development of economic infrastructure ;
- joint ventures of multinational importance: roads, petrol and gas pipes, telecommunications;
- implementing new technologies through buying patents, licences and know-how;
- business clusters.

4. INTERESTS FOR FOREIGN DIRECT INVESTORS

It is widely agreed that foreign direct investments (FDIs) take place when three sets of determining factors coexist at the same time (Dunning, 1993a): the ownership of specific competitive advantages in a transnational corporation (TNC), locational advantages in a host country, as well as the presence of superior commercial benefits in an intra-firm as against an arm's-length relationship between investor and recipient.

- The ownership-specific advantages (e.g. proprietary technology) of a firm if exploited optimally can compensate for the additional costs of establishing production facilities in a foreign environment and can overcome the firm's disadvantages compared to local firms.
- The ownership-specific advantages of the company should go hand in hand with the locational advantages of the host country (e.g. large markets or lower costs of resources or a better infrastructure).
- Finally, companies find bigger benefits in exploiting both locational and ownership-specific advantages by internalisation: through FDIs rather than arm's-length transactions. This could be the case for several reasons.

Firstly markets for assets or production inputs (technology, knowledge or management) cannot be perfect with a 100% success rate, if they exist at all, and may involve significant time-lags and or transaction costs. Secondly, it may be the interest of a company to retain exclusive rights to assets (e.g. knowledge) which adds a significant competitive advantage (for example monopoly rents).

5. BENEFITS OF INVESTING IN SERBIA AND BULGARIA

In nowadays globalized and competitive world countries have different strategic advantages for the investors. The following chapter will compare two similar by size location and customs countries and outline the strong points which attract investments to them.

5.1. Benefits of investing in Bulgaria

In recent years Bulgaria has become a favourable location for settling and exporting of businesses and production capacities. The country is attractive for investors because of a good geopolitical location its membership in EU, a tied to the euro currency, the low income tax and qualified labour force.

In particular, in Bulgaria the following conditions are to be found:

Political and business stability

- Bulgaria is a member of the European Union, WTO and NATO
- The stability of the currency is supported by the currency board, pegging the

Bulgarian lev to the euro at the level of 1.96

Low cost of doing business

- Bulgaria has the most favourable tax regime in Europe. Corporate income tax rate is 10%, the lowest in the EU. Personal income tax is 10 %, flat rate. Industries in high-unemployment areas are granted 0% tax rate
- There is a 2-year VAT exemption for imports of equipment for investment projects over €5 million, creating at least 50 jobs
- Depreciation time for computers and new manufacturing equipment is two years
- 5% withholding tax on dividends and liquidation quotas (0% for EU tax residents)
- Bulgaria has one of the most competitive costs of labor in Central and Eastern Europe
- Favorable office rents and low cost of utilities. Bulgarian cost of electricity for industrial users is 70% of the European average

Strategic location

Bulgaria is a strategic logistics hub, because is located in the heart of the Balkan peninsula. Transportation of cargo is easy ,because:

- Five Pan-European corridors (IV, VII, VII, XI, X), which pass through the country
- Transport program TRACECA, which connects Europe with Caucasian and Central Asian region
- Four major airports: Sofia, Plovdiv, Bourgas and Varna
- Two main seaports: Varna and Bourgas
- Numerous ports at the Danube River

Access to markets

Due to its location Bulgaria provides direct access to the following key markets:

- Member of European Union with zero tariff market with population of 500 million
- CIS – still not well penetrated market with a high potential
- Turkey - zero tariff market of near 80 million population
- Middle East – a market with high purchasing power
- North African market

Human resources

- Work force is well educated, highly skilled and multilingual
- 62.2 % of the total population is in working age (appr. 4.6 million)
- 60 000 students annually graduate from 51 universities
- 98% of the high school students study a foreign language (usually English) and 73% study a second language (mainly German, French, Spanish, Russian)
- 94% of the schools have Internet access

5.2. Benefits of investing in Serbia

Political and business stability:

- Over the past four years Republic of Serbia took steps to further improve political and economic stability. For reversing the Serbia's trend of economic growth driven by import and consumption, and in order to put the former Yugoslav republic on a dynamic and sustainable growth path, economic reforms were carried out. Their purpose was to stabilize the macro economy and improve the business climate.
- Since 2014, the Government of the Republic of Serbia has taken steps towards deminishing the government debt and fostering a greater fiscal responsibility. Reforms of the public administration and of the state-owned enterprises were undertaken. The past few years are also marked by an overall increase of the productivity in the public sector.
- For the past four years Serbian Dinar has been exchanged in the range 110-123 RSD/EUR

Low cost of doing business

- Serbia has a very favourable tax regime in Europe. Corporate income tax rate is 15%. Personal income tax is 10 %, flat rate.
- According to EUROSTAT, Serbia has the lowest costs of electricity, gas, other fuels and landline telephony among 37 European states.
- Depreciation time for computers and new manufacturing equipment is 2 years
- Serbia has one of the most competitive costs of labor in Central and Eastern Europe .The average gross monthly salary is 506 Euro.
- Corporate Income Tax Relief A 10-year Corporate Profit Tax Holiday is available for investors who hire more than 100 employees and invest more than 8.5 million euros (1 billion RSD). Tax holiday begins once the company starts making a profit.

Strategic location

Located at the heart of the Balkans, Bulgaria is a strategic logistics hub. Ease of transportation of cargo is provided by

- TWO Pan-European corridors (VII, X), which pass through the country
- Transport program TRACECA, which connects Europe with Caucasian and Central Asian region
- Two major airports: Belgrade and Nis. Belgrade Airport Nikola Tesla has a direct connection to New York JFK Airport
- Two main seaports: Varna and Bourgas
- Connection to Rhine-Main-Danube Canal . Access to Port of Hamburg

Access to markets

Due to its location Serbia provides direct access to the following key markets:

- European Union - zero tariff market with 500 million consumers 66% of total exports
- Russia, Kazakhstan and Belarus – 171.1 million consumers 5.9% of total exports
- Turkey - zero tariff market of near 80 million population 1.9% of total exports
- CEFTA – 20.1 million consumers 18.6% of total exports
- US 321.4 million consumers 1.9% of total exports

Human resources

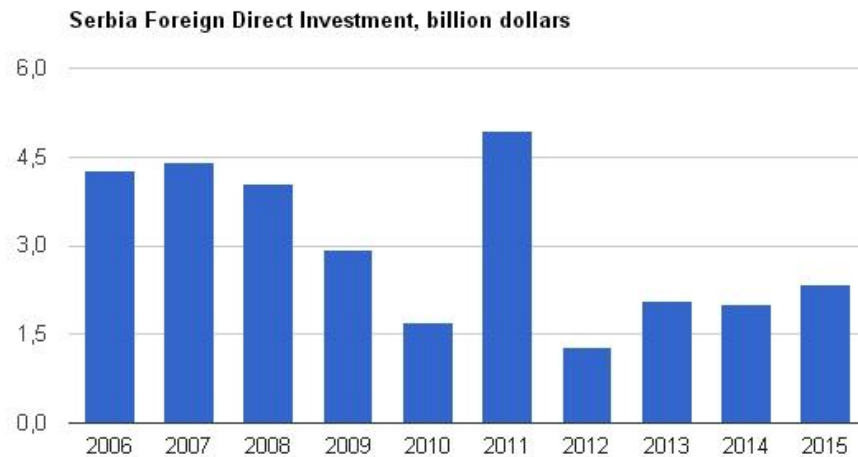
- Work force is well educated, highly skilled and multilingual
- 62.2 % of the total population is in working age (appr. 4.6 million)
- 243 000 active students study in five University Centres across Serbia
- Based on 100K+ 86% of the population has English profficiency, 12% - Russian and German, 6% French and Spanish, 4% are proficient in Italian.
- There are 506 high schools

Both Serbia and Bulgaria have around 7 millions population and are similar in culture location and language.

6. CASE STUDY

The purpose of the analytical part of this research is to examine the impact of FDI on the economies of Serbia and Bulgaria for the period of 2006 to 2015. To determine whether there is a connection between the amount of FDI and the well-being of the citizens, the most appropriate macroeconomic indicator is the GDP per capita, because it shows the average wealth of the citizens of a country for a period of a year. As Foreign Direct Investments have a long-term effect on the economy where they land, it is reasonable to add their amounts and work with the whole amount, accumulated in the economy for the period of the case study.

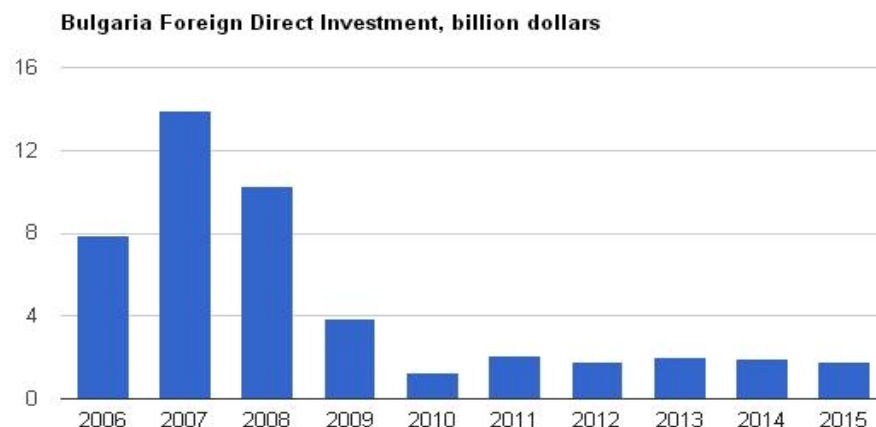
Graph no 1 Serbia FDI in billions \$



Source: The authors, based on data by 2006 to 2016,
http://www.theglobaleconomy.com/Serbia/fdi_dollars/

The total amount of FDIs in Serbia from 2006 to 2015 29.98 billion USD.

Graph no 2 Bulgaria FDI in billions \$

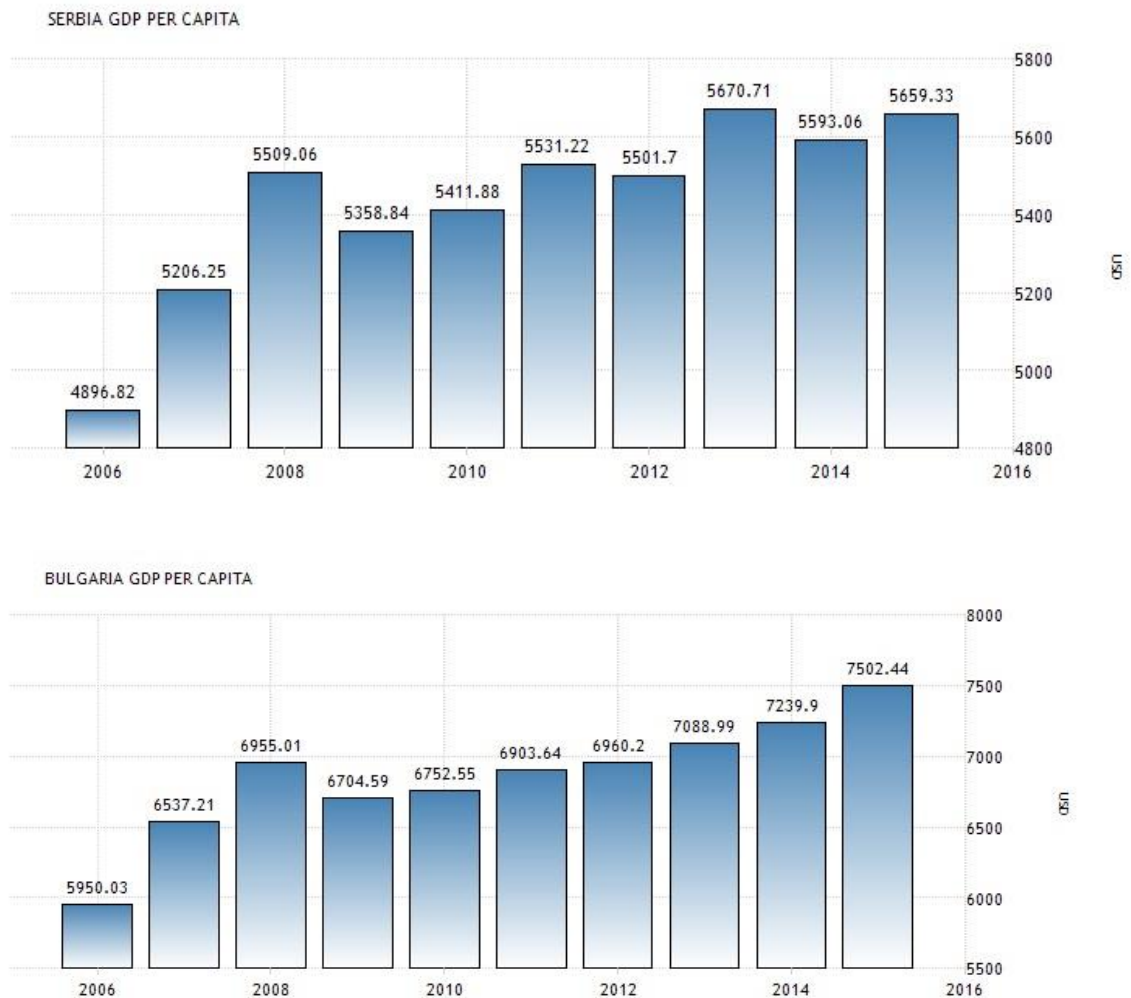


Source: The authors, based on data by 2006 to 2016,
http://www.theglobaleconomy.com/Bulgaria/fdi_dollars/

The total amount of FDIs in Bulgaria from 2006 to 2015 46.81 billion USD.

In order to establish a statistical correlation between the two total amounts of FDIs in the two examined countries, we also need two amounts of the GDP in the countries.

Graph no3 and Grapg no4 - Serbian and Bulgaria GDP per capita

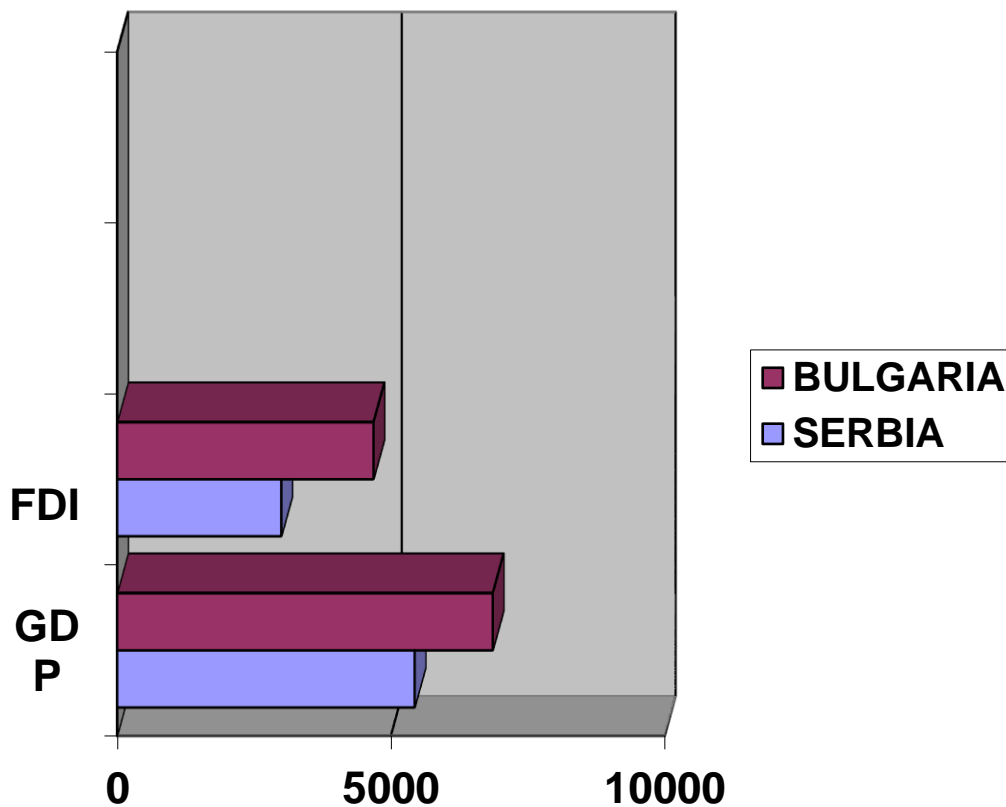


Source: The authors, based on data by 2006 to 2016,
<http://www.tradingeconomics.com/serbia/gdp-per-capita> and
<http://www.tradingeconomics.com/bulgaria/gdp-per-capita>

The average Serbian GDP per capita for the period 2006 until 2016 is 5433 USD.
The average Bulgarian GDP per capita for the period 2006 until 2016 is 6859 USD.

Graph no5 compare amount of Foreign Direct Investments in Serbia and Bulgaria in millions of USD to the average GDP per Capita for the period 2006 to 2015.

Graph following on the next page



Source: The authors, based on data for 2016

When comparing the whole amount of Foreign Direct Investments in Serbia and Bulgaria in millions of USD to the average GDP per Capita for the period 2006 to 2015, a coefficient of positive correlation of 93,2% is calculated. This is a strong positive correlation that indicates a positive connection between the investments mass of FDI in both countries and the improvement of the living standard for the same time period.

7. CONCLUSION

From the analysis of FDI trends and dynamics of Serbian and Bulgarian economies were derived the following conclusions and recommendations:

The countries are attractive for investors because of the favorable geopolitical location, strong positions on big markets, the macroeconomic and financial stability and because of low taxes and low labor costs for a skilled labor force.

Foreign direct investments (FDI) are an important part of capital streams and one of the main channels of the impact of financial globalization on the economy. FDIs are an important factor for the growth of any economy, and especially for small open economies like the Serbian and the Bulgarian. There is a strong positive influence of investments mass of FDI to the growth of GDP per Capita and thus a positive effect on the wellbeing of the citizens. That is why advertising the country's potential for economical development is a key component to successful attraction of funds. And successful attraction of funds in the form of Foreign Direct Investments is a key factor for developing a country's economy.

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THE INFLUENCE OF INNOVATION ON THE ENTERPRISE COMPETITIVENES

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ABSTRACT

Research subject of this paper is the establishment of innovations as a factor of competitiveness and the realization of company's market share, bearing in mind that the size of market share cannot be defined once and for all, as well as that competition is going through constant changes. Research objective of this paper is to define innovations as the crucial factor for increasing company's market share and its competitiveness in the long run. Research was carried out in 2016 based on a specially designed questionnaire on a sample of 100 organizations in the territory of Serbia. There were 96 returned and validly filled out questionnaires that were taken into consideration during data processing. Methods used in this research are hypothetic-deductive, analytic-deductive and comparative methods, historical and statistical-descriptive methods and finally methods of comparative statistics (χ^2 test, ANOVA). In key results of the research it is confirmed that the innovation of the organisation and innovative activities of its employees influence the increase of its market share and competitiveness, with significant differences of the values depending on the organisation size, years of operating, level and different kind of industry the organisation operates in. Paper contribution can be seen in support of organization's innovativeness and competitiveness as the function of business success, the linkages between innovative capacity, innovativeness and business. Positive results support also the greater investments into new and innovative projects of business subjects, from innovations of products, technology and material, organization and methods of management, to market innovations.

***Keywords:** competitiveness, firm objectives, innovation, knowledge, market share, market design, statistical methods*

1. INTRODUCTION

It is difficult to ensure satisfactory business performances in the conditions of fast market and technological changes. In such challenged conditions enterprises/organizations operate innovations could represent the crucial factor of business success and achievements of superior performances. Starting from theoretical bases and successful practical experiences stating that technology is a significant factor of competitiveness and economic growth, to use and develop the potentials of innovations their adaptation and technology transfer would be the opportunity for economic growth in an organization, but in the country too.

Creation of commercially acceptable and competitive innovations is conditioned on the finding of specific sources and abilities and on achieving operative efficiency. There are numerous sources of information for realizing innovative activities, from suppliers of materials, equipment, components or software, clients, consultants, buyers/consumers, as well as other organization's stakeholders that deal with the activities of research and development. Business practice experiences show that organizations with superior business performances based on knowledge are flexible striving to create a unique value for consumers by constantly introducing innovations. In order to achieve sustainable growth and competitiveness, modern companies are increasingly turning towards the creation of different innovation networks. In that way, innovations are becoming the result of networking between all parts of one organization (internal networking) and networking with all other entities (external networking). Changes in market conditions and basis for competitiveness have led to changes in profiling and realizing innovation strategies. Thanks to new communication technologies, clients and final users are being self-initiatively involved in company's innovation activities.

They are motivated by the loyalty to the product, enthusiasm, need to explore, creativity, cooperation with the company, and all of these are becoming an increasingly important source of new ideas and changes in behaviour on the market. Hence, for a planned business success, new ways of company behaviour and innovation management have to necessarily be present. Innovativeness, researching, development and knowledge are considered important drivers of productivity and growth whereas organizations are given the leading role in the process of creating knowledge as a precondition for their business success.

Knowledge is a unique resource that increases organizations' innovation performances and competitive advantage on the market. In this sense, innovative organizations are identified as business subjects that, in the observed period, implemented a product or process innovation, innovation inside the company or marketing innovation. Low country's competitiveness context for Serbia, 90th of 138 countries measured by Global Competitiveness Index (World Economic Forum, 2017) (Table 1; Figure 1) is further motive to research the level of innovativeness of domestic enterprises, and to show how the innovation as factor of importance, influence the increase of their market share and competitiveness.

Table 1: Serbia GCI 2017

Rank / 138	Score (1-7)	Trend	Distance from best
Subindex C: Innovation and sophistication factors	120	3.1	
11th pillar: Business sophistication	125	3.2	
12th pillar: Innovation	108	3.0	

Source: World Economic Forum, Executive Opinion Survey 2016

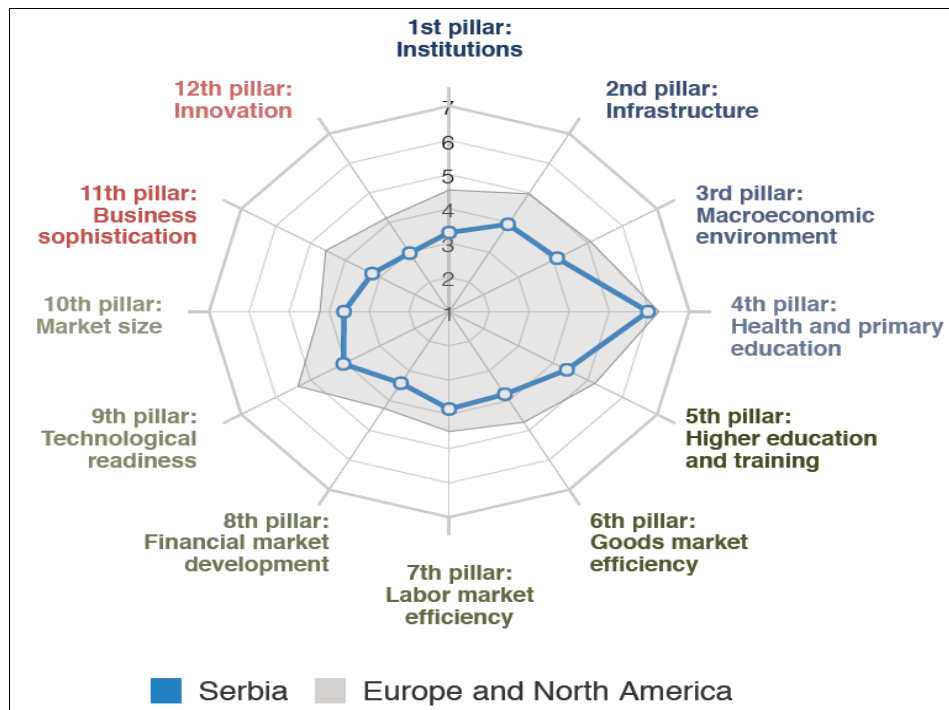


Figure 1: Innovation as a pillar of competitiveness of Serbia, 2017
Source: World Economic Forum, Executive Opinion Survey 2016, p. 314.

That is the subject of the research in the paper. In the structure of the paper, after the introduction, a literature review is presented, and key findings of the research, methodology used, sampling, discussion and conclusions.

2. LITERATURE REVIEW

Innovation is a multi-dimensional phenomenon that is both complex and context-specific involves the exploitation of new ideas. The distinction between innovation and invention is made clear by Freeman (1982, p.7; Wolfe 1994, p. 406) when he concern an *invention* as an idea, for a new or improved product, accomplishing the innovation in the economic sense with *commercial* transaction involving the new product. The main characteristic of innovation is *change*. The definition proposed by the OECD (1981, p. 15-16) propose that the innovation consists of steps (as scientific, financial, technical, sale) necessary for the successful development and marketing of new or improved products, the commercial use or the introduction of a new approach to a social service. Rothwell (1994, p. 42) called the fifth generation innovation process the *systems integration and networking process* enabled by the use of electronic toolkits in design and development (Figure 2).

Figure following on the next page

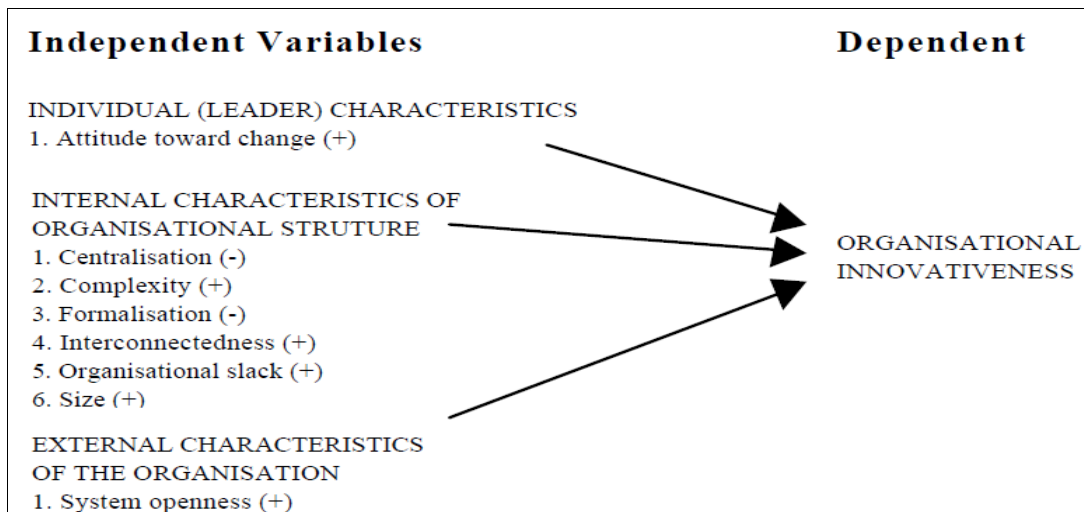


Figure 2: Independent variables related to organisational innovativeness

Source: Rogers (1995, p. 380)

To be important to innovation activities in firm (Von Hippel, 1988; Lundvall, 1988; Normann, 1991; Stevens, 1997) are showed the firm's linkages to external networks and the relations to customers have been shown Stevens (1997, p. 17) emphasizes the importance of networking among firms and the role of competition in advancing innovation. The 5G process of innovation is relatively new in the literature. The literature on innovation at the firm-level can be classified into three streams: *diffusion*, *organizational innovativeness* and *process theory* studies, each dealing with the phenomenon of innovation but they differ in terms of the research question, unit of analysis, and dependent variable used, reviewed and summarised in Table 2.

Table 2: Distinguishing features of diffusion studies (DI), organisational innovativeness studies (OI), and process theory studies (PT) research

Research stream	Question	Innovation stage focus	Unit of analysis	Variables		Research model	Data collection method	Studies
				Independent	Dependent			
Diffusion	What is the pattern of diffusion of an innovation through a population of potential adopters?	Adoption	An innovation (extra-organisational focus)	Organisational characteristic innovation characteristic promoter characteristic	Diffusion pattern Diffusion extent Diffusion rate	Logistics growth model(based on contagion within the social system and /or change agent influence from without	Cross-sectoral surveys Secondary data	Teece(1980) Easingwood et al.(1981) Norton and Bass (1987) Tolbert and Zucker (1986) Attewell (1992)
Innovativeness	What determines organisational innovativeness?	Adoption or implementation	Organisational	Organisational characteristics Innovation characteristics Managerial characteristics Environmental characteristics	Innovativeness-Number or speed of adoptions	Variance/regression models	Cross sectoral surveys	Kimberly and Evanisko(1981) Balbridge and Burnbam (1975) Ettile (1983) Moch and Morse (1977) Meyer and Geecs (1988)
Process steps	What are the stages organisations go through in implementing innovations	Adoption through implementation	Innovation process(intra-organisational focus)	Innovation characteristics	Stage: existence and /or sequence	Stage models	Cross-sectoral retrospective surveys	Pelz (1983) Ettlic (1983)
Process	What factors explain the chain of events which result in innovation implementation?	Adoption through implementation	Innovation process (intra-organisational focus)	Precursor Organisational context: strategy, structure, resources, technological strength	Outcome The innovation process, stages	Process models	In-depth field studies	Dean (1987) Dyer and Page (1988) Schroeder et al. (1989)

Source: Adapted from Wolfe (1994, p. 413)

Innovation and competitiveness. Innovation is the key to competitive advantage in a highly turbulent environment. It is a major driving force for economic growth of nation states. The ability to innovate has direct consequences for the ability to compete at the individual, firm, regional and national level. The values created by innovations are often manifested in new ways of doing things or new products and processes that contribute to wealth. Hence, innovation enhances business performance because the product of innovative activities makes a firm more competitive and the process of innovation transforms a firm's internal capabilities. When we consider a firm as a bundle of resources, skills and competencies, then the effect of innovation is to transform a firm's inner capabilities for new ideas exploitation. This enhanced flexibility is crucial in the face of changing market conditions. Thus competitiveness of firms is enhanced by innovation having a direct influence on competitiveness.

3. EMPIRICAL RESEARCH RESULTS

3.1. Sample description

In a research sample consisting of 96 companies, 42.7% are micro organizations (organizations having no more than 9 employees), 25% are small organizations (having between 10 and 49 employees), 15.6% are medium organizations (having from 50 to 249 employees), while the percent of large organizations (having over 250 employees) is 16.7. 18.8% of companies are operating on a national level, 22.9% on a regional level, 26% locally, while there are 32.3% of organizations operating on an international level. The largest number of organizations have existed for more than 15 years (38.5%), percent of organizations operating from 8 to 15 years is 31.3, percent of organizations operating from 4 to 7 years is 19.8, while there are the least organizations operating from 3 to one year (19.4%). Most organizations are carrying out service-based activities (61.5%), then we have organizations carrying out both service and product-based activities (22.9%) and there are the least of those with exclusively product-based activities (15.6%).

3.2. Hypothesis and Methodology

Main research hypothesis is: Company's business success, increase in company's market share and competitiveness are related to the level of innovations as an operating factor.

Research methods: The following scientific methods were used in this paper: hypothetic-deductive methods, analytical-deductive methods, comparative methods, historical and statistical descriptive methods and methods of comparative statistics (χ^2 test, ANOVA). Factors of significance for the achievement of competitive position were evaluated by the interviewees with grades ranging from 1 to 5, wherein they evaluated each factor in regards to their level of significance (1 – the least important among the listed factors, 5 – the most important).

3.3. Key results

Alongside good-quality management, marketing, weak competition, importance of state institutional and financial support to company's competitiveness, interviewees also rated the importance of innovations for company's operations as a significant factor for achieving competitive advantage. Results show that 30.2% of organizations rated innovations in business as a factor of significance for achieving competitive advantage with 3, 28.1% organizations gave a 4, 17.7% of organizations gave a 5, mark 1 was given by 12.5% of organizations, while mark 2 was given by 11.5% of organizations. Average values of marks concerning factors of importance for organizations to enter a new market are presented in Table 3.

It can be seen that organizations find a well-designed business plan to be the most important for entering a new market (average mark value 3.83), then we have the meeting of customer demands with an average value of 3.55, then good marketing plan, innovations, while the lowest mark was given to the state support with an average value of 1.65.

Table 3: The factors of importance for entry of companies on new, mean values of scores market

	Business plan well-designed	Consumer demands satisfaction	Good marketing plan	Innovation	Government support
Mean values	3.83	3.55	3.06	2.92	1.65

Source: Authors

Average value of the level of innovative activities within organizations is rated with an average mark of 3.48. The highest number of organizations rated the level of innovative activities inside an organizations with 3 (37 organizations), while mark 4 was given by 21 organization. Ratings for innovative activities are given in Table 4. In table 4 we can see ratings for the involvement of employees in innovative activities. It can be seen that the highest number of interviewees rated the involvement of employees with 3. Average value of marks is 3.09. It's evident that the involvement of employees in innovative activities is rated with a mark slightly above the average.

Table 4: Estimates level of innovative activity in the organization

Innovative activities level in organization			Employees involvement in innovative activities of the organization		
Scores	Absolute frequency	Relative frequency	Scores	Absolute frequency	Relative frequency
1	2	2.1	1	10	10.4
2	11	11.5	2	14	14.6
3	37	38.5	3	40	41.7
4	31	32.3	4	21	21.9
5	15	15.6	5	11	11.5
Total	96	100.0		96	100.0

Source: Authors

Differences in marks for factors which are of significance for the competitiveness and market share are presented with the Chi-Square test (χ^2) with the existence of the significance of differences for values Sig. (significance of differences) $\leq 0,05$. Bond strength between variables was determined with Cramer's indicator (Cramer's V). Values for the bond strength of variables are:

- 0 - 0,1 weak association
- 0,1 - 0,3 small association
- 0,3 - 0,5 medium association
- $V > 0,5$ strong association

Opinions of interviewees and differences in values of factors of importance for the competitiveness and market share of organizations of different size (micro, small, medium and large) are presented in Table 5:

- Significance of the factor for entering a new market (well-designed business plan, meeting customer requests, good marketing plan, innovations and state support) don't differ in organizations of different size.

Table 5: Ratings of the factors of importance for the competitiveness and market share of the organizations of different sizes

Factors of importance		Value	df	Sig.	Cramer's V
For competitive advantage	Good management	8,351	12	0,757	0,170
	Good marketing	21,040	12	0,050*	0,270
	Weak competitors	12,838	12	0,381	0,211
	State support	10,276	12	0,592	0,189
	Business innovation	6,180	12	0,907	0,146
For competitiveness of products/services	Competitive price	9,877	12	0,627	0,185
	Good design	4,106	12	0,981	0,119
	Good functionality	13,414	12	0,340	0,216
	Fast service	25,807	12	0,011*	0,299
	Good marketing	17,441	12	0,134	0,246
To enter the market	A well-designed business plan	16,636	12	0,164	0,240
	Monitoring consumer demands	16,513	12	0,169	0,239
	A good marketing plan	15,060	12	0,238	0,229
	Innovation	19,492	12	0,077	0,260
	Government Support	18,936	12	0,090	0,256
Determining the level of market share	Company reputation	28,730	12	0,004*	0,316
	Other companies on the market	19,129	12	0,085	0,258
	market characteristics	24,324	12	0,018*	0,291
	market Size	14,950	12	0,244	0,228
	time presence in certain markets	9,352	12	0,673	0,180

Source: Authors

Differences in the significance of the factor for competitiveness and market share of organizations operating on a different level (local, national, regional, international) are showed in Table 6:

Table 6: The importance of innovation as a factor, ratings

Factors of importance		Value	df	Sig.	Cramer's V
For the competitive advantage	Business innovation	26,008	12	0,011*	0,301
To enter the market	Innovation	23,351	12	0,025*	0,285

Source: Authors

- Good-quality marketing differs significantly in organizations of different operating level as the factor necessary for the achievement of competitive advantage Sig. = 0.008<0.05, with a medium association between variables V=0.305. Weak competition as a factor necessary for the achievement of competitive advantage differs within organizations of different operating level Sig. = 0.008<0.05, with a medium association between variables V=0.305. *Significance of innovations in business operations as a factor necessary for the achievement of competitive advantage differs significantly within organizations of*

different operating level Sig. = 0.011 < 0.05 with a medium association between variables V=0.301. Values for good-quality management and state support as factors necessary for the achievement of competitive advantage don't differ significantly within organizations operating on a different level;

- Values for meeting customer demands as a factor of significance for entering a new market differ significantly within organizations of a different operating level Sig = 0.001 < 0.05 with a medium bond strength between variables V = 0.344. **Innovations as a factor of significance for entering a new market differ significantly within organizations operating on a different level Sig = 0.025 < 0.05 with a weak bond strength between variables V=0.025.** Values for state support as a factor of significance for entering a new market differ significantly within organizations of a different operating level Sig. = 0.024 < 0.05 with a weak bond strength between variables V=0.286.
- Significance of a well-designed business and marketing plan doesn't differ to a large extent within organizations of a different operating level;

At table 7, the differences in values of factors of significance for the competitiveness and market share of organizations of different operating duration are presented:

- Significance of a good-quality management differs within organizations operating for a different time period as a factor necessary for the achievement of competitive advantage Sig = 0.018 < 0.05 with a weak bond strength between variables V=0.291. **Innovations in business operations differ significantly, according to the level of importance, as a factor necessary for the achievement of competitive advantage within organizations operating for a different time period Sig = 0.050 ≤ 0.05 with a weak bond strength between variables V=0.270.** Significance of a good-quality marketing, weak competition, state support doesn't differ significantly within organizations operating for a different time period as factors necessary for the achievement of competitive advantage;
- State support differs significantly as a factor of significance for entering a new market within organizations operating for a different time period Sig = 0.003 < 0.05 with a medium bond strength between variables V=0.322. Well-designed business plan, marketing plan, meeting customer demands and *innovations don't differ significantly, by the level of importance, as factors of significance for entering a new market within organizations operating for a different time period.*

Table 7: The differences in assessments of factors of importance for the competitiveness and market share of the organizations of different years in business

Factors of importance/ ratings importance of innovation as a factor		Value	df	Sig.	Cramer's V
For the competitive advantage	Business innovation	21,027	12	0,050*	0,270
To enter the market	Innovation	19,664	12	0,074	0,261

Source: Authors

In Table 8, the differences in values of factors of significance for the competitiveness and market share within organizations of different activity type (service, product and both service and product-based) are presented:

- Regardless of the field of activities, factors necessary for the achievement of competitive advantage don't differ;
- Regardless of the field of activities, values of the significance of factors for competitive advantage don't differ;

- State support differs significantly as a factor of significance for entering a new market within organizations of different field of activities Sig = 0.001<0.05 with a medium bond strength between variables V=0.375. A well-designed business plan, meeting customer demands, good marketing plan and **innovations don't differ by the significance for entering a new market within organizations of different field of activity;**

Table 8: The differences in assessments of factors of importance for the competitiveness and market share of the organizations of different economic activities

Factors of importance/ importance of innovation as a factor		Value	df	Sig.	Cramer's V
For the competitive advantage	Business innovation	3,968	8	0,860	0,144
To enter the market	Innovation	14,906	8	0,061	0,279

Source: Authors

Market share and competitiveness of organizations were analysed by applying the ANOVA test with the level of significance of 0.05 (there is a statistically important difference for values Sig≤0.05). It was established, by a subsequent Turkey test, between which organizations there was a significant difference in values.

At table 9, it can be seen that within organizations of different sizes (micro, small, medium and large organizations) there are differences between:

- values of significance of organization's market share for business success (Sig = 0.028<0.05);
- significance of the level of innovative activity in organization, and the involvement of employees in innovation activities

Table 9. Differences in estimates of market share and competitiveness of organizations of different sizes

Ratings importance of innovation as a factor		Sum of Squares	df	Mean Square	F	Sig.
The importance of market share for the business success of the organization	Between Groups	9.242	3	3.081	3.170	.028*
	Within Groups	89.414	92	.972		
	Total	98.656	95			
The level of innovative activity in organization	Between Groups	1.065	3	.355	.376	.771
	Within Groups	86.893	92	.944		
	Total	87.958	95			
The involvement of employees in innovation activities	Between Groups	5.593	3	1.864	1.524	.214
	Within Groups	112.564	92	1.224		
	Total	118.156	95			

Source: Authors

In Table 9 is presented, how the organizations of different sizes differ in values of the significance of market share. There is an important difference between micro and medium-sized organizations (Sig = 0.016<0.05).

Correlation analysis

Purpose of the correlation analysis was to describe the strength and direction of the bond between two variables (size of organizations, operating level and duration of business with factors of significance for the achievement of competitive advantage, increase in organization's innovative activity and entering and conquering new markets). Pearson correlation coefficients (r) can have values from -1 to +1. Signs show whether the correlation is positive (both variables are decreasing or increasing simultaneously) or negative (one variable is increasing when the other is decreasing and vice versa). Absolute value of that coefficient (when we replace the sign) shows the strength of the bond as follows (Cohen, 1998):

- weak correlation r= from 0.10 to 0.29;
- medium correlation r= from 0.30 to 0.49;
- strong correlation r=from 0.50 to 1.0.

Correlation of factors for the achievement of competitive advantage (good-quality management and marketing, weak competition, state support and innovations in business) with values for organization's market share and competitiveness is showed in Table 10. The results show:

- **There is a positive medium-strength correlation between levels of organization's innovative activities and the significance of innovations in the business (r=0.304). Results imply that with the increase in the level of innovative activities comes an increase in the significance of innovations as factors for the achievement of competitive position;**
- There is a medium-strength correlation (r=0.377) between the education of management/employees in the field of possibilities of increasing market share and creating competitive product/service and state support, as well as a weak-strength correlation between education and innovations in business operations (r=0.282). **Results imply that with the increase in management/employees education in the direction of possibilities of increasing market share comes an increase in state support and innovations in business operations as a factor of significance for the achievement of competitive position;**

Table 10. Correlation of factors of significance for the achievement of competitive position and organization's competitiveness

Correlation of innovation as a factor of importance		Good management	Good marketing	Weak competition	Government support	Innovation in Business
The importance of market share for the business success of the organization	Pearson Correlation	.193	-.236(*)	-.011	.085	-.016
	Sig. (2-tailed)	.060	.021	.917	.408	.876
	N	96	96	96	96	96
	Sig. (2-tailed)	.424	.005	.025	.216	.659
	N	96	96	96	96	96
The level of innovative activity in organization	Pearson Correlation	-.112	.070	-.219(*)	-.067	.304(**)
	Sig. (2-tailed)	.276	.497	.032	.515	.003
	N	96	96	96	96	96
	Pearson Correlation	-.073	-.185	.153	-.151	.186

The involvement of employees in innovation activities	Sig. (2-tailed)	.481	.071	.136	.143	.069
	N	96	96	96	96	96

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Source: Authors

4. DISCUSSION AND CONCLUSIONS

The research carried out covered 96 organizations of different size (micro, small, medium, large), operating level (local, national, regional, international), duration of business and field of activities (service, product, both service and product-based). Objective of this research was to establish factors of significance for organization's competitiveness, among which special emphasis was placed before innovations, as well as to estimate competitiveness and market share of organizations. Sample results show that organizations consider source of competitiveness to be in the price and quality of the product. Market share of organizations has appeared as significant for the business success, and competitiveness of products/services is more severe at the national than at the international levels. Level of innovative activities within organizations, as well as marketing activities within organizations that are used to increase competitiveness, are above average. We can come to a conclusion that the level of state support for the sake of achieving competitive advantage is at an extremely low level.

Table 11. Competitiveness and market position of organizations included in the sample

Competitiveness and market position of organizations	Average values
Significance of market share for organization's business success	3,84
Level of innovative activities inside organizations	3,48
Involvement of employees in innovative activities	3,09

Source: Author

Operating level (local, national, regional and international) significantly affects differences in organization's competitiveness and market share. Among twenty observed factors a difference was noted in more than half. Good-quality marketing, weak competition and **innovations** differ as factors necessary for the achievement of competitive advantage, design, timely service and good-quality marketing as factors of significance for the competitiveness of products/services, meeting customer demands, **innovations** and state support differ as factors of significance for entering new markets, while the size of the market and duration on the market differ depending on the organization's operating level as factors which market share level depends on. Results show that, when it comes to the achievement of competitive advantage, when there is an increase in product quality and post-sale service for the product/service competitiveness there is also **an increase in the significance of innovations in business**, with an increase in organization's market share outside the national borders comes an increase in the significance of state support, when there is an increase in the influence of management on the increase of organization's market share there is also an increase in the influence of management, and a decrease in the significance of weak competition during the achievement of market position. **With an increase in the level of innovative activities inside organizations comes an increase in the significance of innovations in business. By increasing management/employees education we are also increasing the significance of state support and innovations in business operations.** Innovative companies constantly review their progress by measuring against milestones set. In the research are set clear targets and competitors benchmarked in the areas of customer satisfaction, sales trend and market share, product development times, new product introduced and R&D. it is confirmed the Hypothesis that Innovation enhances business

performance because the product of innovation increases firm competitiveness and the process of innovation transforms a firm's internal capabilities making it more adaptive to change, as well as the level of employees involvement in innovative activities in the organisation. The literature reviewed in the paper suggests an implicit relationship between innovative capacity, innovativeness and competitiveness of a firm.

Research established the linkages between innovative capacity, innovativeness and business performance. The contribution of the paper is specifically in better understanding the correlation of how can firms leverage their innovative capacity for enhancing business performance. Specifically the research output will help to relieve low innovative performance of some firms.

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TOWARDS EUROPEAN CENTRAL BANK EUROSISTEM 4.0

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ABSTRACT

The history of banking refers to the development of banks and banking throughout history, with banking defined by contemporary sources as an organization which provides facilities for acceptance of deposits and provision of loans. Today, far too many banks create silos for each channel – including separate reporting lines and separate sales goals. The practices in the European Union (EU) nations suggest that the key financial ratios currently applied across member states are quite heterogeneous and the variables taken into account to define them are not identical. The European currency EURO could fail because of financial mismanagement by various EU governments. The Eurosystem uses three categories of instruments. The worldwide economic damage of total erosion of the euro zone is approximately 20 trillion euros. Therefore, European Union needs Eurosystem 4.0 within the current trend of automation and data exchange in banking technologies. Eurosystem 4.0 include cyber-banking-physical systems, the Internet of banking things and cloud banking computing. The ability of companies and people to connect and communicate with each other via the Eurosystem 4.0 of Companies (EoC) or the Eurosystem 4.0 of People (EoP).

Keywords: P2P Lending, Banking, Technology, ECB

1. INTRODUCTION

The history of banking refers to the development of banks and banking throughout history, with banking defined by contemporary sources as an organization which provides facilities for acceptance of deposits and provision of loans. The history of banking is intertwined with the history of money.¹ Ancient types of money known as grain-money and food cattle-money were used from a time of around at least 9000 BC, as two of the earliest things understood as things to be made use of for the purposes of barter.²

By the end of the 17th century, banking was also becoming important for meeting the fund requirements of the combative European states. This would lead on to government regulations and the first central banks. Many consider the origins of the central bank to lie with the passage of the Bank Charter Act of 1844, which authorized only the Bank of England to issue new notes. For the most part of the history of money and finance, innovation remained slow paced. In a history spanning more than 5,000 years, perhaps the only major innovations have been introduction of coins and paper currency (backed by gold or otherwise), concept of interest rates and introduction of credit. But matters changed rapidly starting in the late 1980s. Backed by technological advances, banking and financial services have grown by leaps and bounds in terms of innovation and services offered from the 1990s. Presently mobile banking and mobile wallets are the two fastest growing segments in the payments industry. Digital business is an overarching trend covering how the blurring of the physical and virtual worlds is transforming business designs, industries, markets and organizations. Major business and technology advancements, such as the Internet of Things, 3D printing, and machine learning will combine to disrupt existing business models and create an opportunity for entirely new ones.

¹ https://en.wikipedia.org/wiki/History_of_banking (24.03.2017)

² G Davies, J H Bank – A history of money: from ancient times to the present day University of Wales Press, 2002 (24.03.2017)

Digital technologies build on each other with wave after wave of innovation. Customer expectation for banking services (both offline and online) is being reset by the experience being provided by retailers and online providers elsewhere. Thanks to companies like Google, Amazon, Apple, Uber and our very own e-commerce firms, customers now expect every organization to deliver products and services swiftly, with a seamless user experience. New digital providers are definitely changing the rules and disrupting traditional value chains in many industries. The same could happen to the financial services industry as well. Fintech startups are already accelerating innovation in financial markets by leveraging technology. But it will be naïve to believe that technological advancement in banking will only be delivered by fintech firms. Over the next couple of years, we should expect to see a lot of financial innovation spearheaded by incumbent banks – either independently or in partnership with new fintech firms. There is a growing trend where incumbents will be as good as fintech firms at innovation. Today a lot of banks are partnering with fintech firms for mutual benefit. Some of the traditional players in banking have been very agile in experimenting with new age technologies such as artificial intelligence and block chain. With the advance of smart watches, banking is already slated to experience a shift from ones pocket to ones wrist. Wearable banking will help banks roll out contextual notifications to clients, which means that actionable promotional content can be delivered at just the right time. The future ultimately lies in personalized, contextual engagement. However, smart watches are not the ultimate frontier of wearable technology. As technology extends beyond smart watches to include smart eyewear, gesture controlled devices and other connected products in the larger IoT (Internet of Things), we envisage an exciting world of ‘predictive banking’ to emerge. All the data one generates across ones daily life can be captured (with due permission of course), connected and analyzed – from sensors embedded in everything from wearables to cooking utensils to the car. The area is unbound for exploration and as we explore further, a billion possibilities will emerge. You can expect your bank to create products that can connect with you on a deeper level but in a non-intrusive manner. Banks and financial institution will be a part of an invisible layer around your daily activities. For example, by linking to your fitness band, we would like to encourage your fitness goals by rewarding you on your achievements. We can track your health data (pulse rate, sleeping habits, daily physical exercise, calorie intake, etc.) and create customized insurance plans at the lowest possible annual premiums by partnering with various health providers. Artificial intelligence (AI) and Machine learning is another important technology that combines natural language queries, predictive analytics, and self-evolving cyber security systems. Artificial intelligence is the future and has already started to become part of our everyday lives. Machine learning is an approach to achieve artificial intelligence where the machine is ‘trained’ using large amounts of data and algorithms that give it the ability to learn how to perform the task. Another emerging technological advancement is cloud computing – the practice of using a network of remote servers hosted on the Internet to store, manage and process data, rather than rely on a local server or a personal computer. The big benefits of the cloud are that it cuts costs, improves flexibility and scalability, increases efficiency, and serves clients faster. Technology is making the world collapse into a smartphone. Regulators want better technology and more automation to encourage the development of next generation of compliance tools. Transforming reporting using technology would allow regulators to do their jobs more effectively by achieving a better view of systemic risks as well as individual firms’ exposures. Regulators have increasingly aligned themselves with technology to encourage the development of the next generation of compliance tools, which they hope will wean financial institutions off the spread sheets still widely used to meet obligations. Fortunately, emerging technologies, such as big data, blockchain, and artificial intelligence have the potential to alleviate much of the regulatory burden and manage change better, faster, cheaper and safer. Of course, any firm can throw money at technology vendors to make problems go away, but when the industry works together

in applying technology to regulation in a smart and safe manner, they become ‘regtech’: a new automated solution to compliance. It has been the regulators of late that have provided the push for collaborative solutions. It is also very encouraging that we have a central bank that is equally enthusiastic about promoting innovation and technology. Digital adaption and moving away from cash would not be without complications. Some objections can be easily addressed, such as a claim expressed by a fifth of the respondents, who in a recent survey said that they like the feel of carrying cash. But other problems will be harder to ignore. The most intractable is the risk that sections of society will be left out of the financial system in a world where smartphones and plastic become the only ways to pay. In a near cashless world, vulnerable groups such as the poor, the elderly and migrants, could become further marginalized, and those who are especially cash dependent for income such as street vendors, small traders, charities and the homeless, would fear a drop in their incomes. Banking is a complex business delivered through multiple channels. The challenge is to offer consistent experience with each channel promoting others and be seamlessly integrated. For example, when interacting with a branch employee, the customer may be assisted in the use of mobile banking, and get help with online banking when calling a call centre. Today, far too many banks create silos for each channel – including separate reporting lines and separate sales goals. This has to change quickly because in the customer’s mind, all channels merge together to form an aggregate customer experience. When customers are given choices on how to do business, and those choices are relevant and the experience is consistent, there is much more satisfaction. Finally, it is customer preference which will drive business models. Customers with new expectations and the need to build trusted relationships are forcing incumbents to seek value propositions where experience, transaction efficiency and transparency are key elements. As self-directed solutions emerge among competitors, the ability to differentiate will be a challenge. In addition to social changes, the driving force behind innovation in financial services can largely be attributed to technological advances outside the financial services sector that will bring new opportunities to understand and manage risk. While it may be fairly easy to replicate technology, the critical aspect will be building a culture of innovation and the ability to leverage insights to build solutions that will determine who will be able to maximize the opportunities and emerge as a winner.³

2. THE EUROSISTEM: PRESENT TIME

The practices in the European Union (EU) nations suggest that the key financial ratios currently applied across member states are quite heterogeneous and the variables taken into account to define them are not identical. They are arrived at in terms of ratios using balance sheet data, financial statement data or other types of account data. For example, France uses solvency, risk diversification, operational profitability and maturity transformation as input variables, while German BVR (Protection scheme of German Cooperative Banks) model incorporates information on capital structure, income structure and risk structure. The indicators used in the models can be broadly grouped into three main classes, each related to one particular aspect of bank activities. The first class reflects their capital structure and solvency profile; the second class measures the riskiness and exposure of the banks; and finally, the third set of indicators being the profitability/income. As part of reforms, the EU issued a new Directive 2014/49 on the Deposit Guarantee Schemes (DGSs). The directive prescribes achieving a minimum harmonisation such as uniform protection to depositors, and each EU member state to reach a target fund of 0.8% of covered deposits by 2024. While the directive prescribes that collection of premium be based on the amount of deposit covered and risk profile of the member institution, it leaves the measures of risk to the wisdom of member institutions with a broad

³ http://www.india-seminar.com/2016/687/687_rajiv_anand.htm (24.03.2017)

guidance such as low risk sectors regulated under national laws may provide lower contributions and risk measures may take into consideration capital adequacy, asset quality and liquidity; etc. The European currency EURO could fail because of financial mismanagement by various EU governments. Strategically, sovereign debts of governments can not be operated. Some instruments of the ECB are found to be ineffective. The euro softens further. Citizens, savers and taxpayers lose confidence, investors flee into other currencies. Nevertheless, ECB don't have the power to control growth and inflation at all times. If the advanced EU economies want to achieve a stable equilibrium with full employment, they need other economic policies. The ECB has to be forward-looking, yet it is impossible for monetary policy to offset unanticipated events that have an impact on the economy, or what we call economic shocks.

The Eurosystem uses three categories of instruments:

1. *open market operations*, among which the main refinancing operations, which are weekly credit tenders with a one week maturity, play an important role. This method is adopted by the central bank to expand or contract credit money in the market. Under this method the bank either sells or purchases government securities to control credit. When it wants to expand credit it starts purchasing government securities with the result that more money is pumped into the market. This money in return, is deposited with the commercial banks which become more competent to grant a greater amount of loans thereby expanding credit in the market. On the other hand when the central bank wants to contract credit it starts selling the government securities owing to which market money goes to the central bank with the result that money in the market is reduced. The deposits of commercial banks go down, weakening their power to lend. This method will work when the following conditions are fulfilled:
 - The method should affect the reserves of commercial banks. They should contract or expand as a result of Open Market Operations (OMO). The method would fail if the bank reserves remain unaffected.
 - Demand for bank loans should increase or decrease in line with the increase or decrease in the bank cash reserves and rate of interest.

There are some disadvantages of the open market operation in a specific situation. If the money market is not developed the central bank will not be able to exert full control over the bank reserves. If the commercial banks have surplus reserves with them and they resort to easy lending policy, the sale of government securities may not have the desired effect of reducing the cash reserves of the commercial banks. If there is return of notes from circulation and hoards the sale of securities may not be able to reduce the cash reserves of member banks. Similarly if there are withdrawals of notes for increased currency requirements or hoarding than the purchase of securities may not increase the cash reserves of the commercial banks. There is no fixed ratio of cash to credit for the member banks. If the economic and political conditions are favourable the banks may expand credit by multiple with low cash reserves. In case of the loan conditions are not favourable the banks may contract credit even though they have sufficient cash reserves with themselves.

It is assumed in the theory of open market operation that the demand for bank credit is interest elastic the higher the rate of interest the lower is borrowing and spending.

2. *standing facilities*. Standing facilities aim to provide and absorb overnight liquidity, signal the general monetary policy stance and constrain overnight market interest rates. downside risks in two major channels. One, there could be short-run disruptions in economic activity in cash-intensive sectors such as retail trade, hotels & restaurants and transportation, and in the unorganised sector. Two, aggregate demand compression associated with adverse wealth effects.
3. *minimum reserves* are an integral part of the operational framework of monetary policy in the euro area.

In addition, since 2009 the ECB has implemented several non-standard monetary policy measures, i.e. asset purchase programmes, to complement the regular operations of the Eurosystem. The expanded asset purchase programme (APP) adds the purchase programme for public sector securities to the existing private sector asset purchase programmes to address the risks of a too prolonged period of low inflation.⁴

3. GLOBAL ECONOMIC CRISIS - THE SCENARIO: THE EU'S DISINTEGRATION

The worldwide economic damage of total erosion of the euro zone is approximately 20 trillion euros. The United Nations will launch a reconstruction program for the former euro zone. The top priority is the fight against famine. An international debt conference to restructure the debts of the insolvent States shall be convened. The German foreign claims will amount meanwhile in trillions (former) of Euros. But the debtor countries will not be able to use these. Among the former EU finance dispute breaks out over which country that the old euro debt - have to be paid - converted into the new national currencies. (Former Yugoslavia case⁵)

However, nowadays Europe will have to offer a lot in the coming days despite the fact foreseeable ECB monetary policy. Because ECB monetary policy is an important indicator as to whether the policy of easy money makes an impact or if very quickly a speculation could lead out to after measures recently announced but not yet come into the market. Nevertheless, the ECB needs to rework again to finally fueling inflation and from the recent disinflationary tendencies. The issue therefore remains, with the monetary policy of ECB and thus heralded the turnaround in interest rates. Now is crucial issue from the perspective of market participants, at what pace and to what extent further rate hikes will follow. Most expect more moderate levels and therefore even in the longer term low interest rates - which would appear more attractive stocks as opposed to fixed-income investments. It is certain, however, already clear that the controversial instrument of forced purchases of securities - also known as "quantitative easing" - has become the new standard in monetary policy. For investors, this means: ECB will continue to flow the money in the stock market and drive the stock prices under strong price fluctuations and up to large quantities. Even some large institutions like the International Monetary Fund (IMF)⁶ or various central banks around the globe currently see the situation as critical. Especially critical are the situation in the emerging markets. There, the debts have increased massively over the past decade.

⁴ <https://www.ecb.europa.eu/mopo/implement/html/index.en.html> (28.03.2017)

⁵ https://en.wikipedia.org/wiki/Breakup_of_Yugoslavia (04.04.2017)

⁶ <http://www.imf.org/en/publications> (04.04.2017)

According to the IMF Global Financial Stability Report the companies have raised their debt by 3 trillion of \$ over the emerging markets in this period. Simply put, this means: The private sector has quadrupled the debt volume 2004-2014. You can well imagine that such a debt does not disappear. And if more action to reschedule pending, will have the impact on the international financial markets. The warning voices in the financial market also includes the Bank for International Settlements⁷.

According to the Basel institution, interest rates are far too long been too low. This has enticed many borrowers, particularly in the emerging countries to receive larger loans. But when it comes in precisely those countries such as China to economic problems, there threatens to burst a credit bubble. Here, the economic influence of China is now so far that a crisis will draw there the Western industrialized nations into the abyss. However, in my opinion the situation is anything but fine. Rather, we are facing massive problems in the financial markets - and which are mainly caused by the turmoil in the credit market.

The so-called "financial repression" is a gentle way of expropriation. This debt will be inflated away. Governments and central banks need to turn on two screws for:

- Firstly, the interest must be pushed below the inflation rate. This trend we can watch since the crisis began. In the US, the key rate is after an initial increase in December 2015, the range of 0.25 to 0.5%. In the euro zone of interest is since September 2014 at 0.05%.
- Second, governments need to ensure that the large investors remain trapped in the interest trap. Reforms such as Basel III and Solvency II⁸ are to ensure that insurance companies and banks, large parts of the capital invested despite the zero-interest policy in government bonds (must). If the interest rates for several years is below the inflation rate this also decreases the debt ratio.

4. WE NEED EUROPEAN CENTRAL BANK EUROSISTEM 4.0

With the zero-interest policy, the ECB intends to increase lending by banks to companies. However, this has not worked. Even the so-called *quantitative* easing, in which the ECB pumped a month about 60 billion euros into the financial system remains largely ineffective. Why is this so?

Blame for the failure of the flood of money the ECB has the EU itself. And because of Basel III⁹! Basel III aims to strengthen the stability of the banking sector. The framework makes high demands on quality and quantity of risk coverage. Particularly with regard to activities in the capital market. In addition, banks must meet stricter liquidity requirements. The flood of money can not get into the business and private households: Because of the strict Basel III rules and the numerous requirements of the supervisory authorities of the financial markets hardly loans are granted. Main problem is kept available by the banks high equity ratio. In the current economic situation, the banks do anything but good profits. The structure of equity is more difficult. Therefore, the volume of credit is restricted, for which the available equity in accordance with the Basel III rules is still suffice. Basel III is designed to strengthen the stability of the banking sector, places high demands on quality and quantity of risk coverage. Particularly with regard to activities in the capital market. In addition, banks must meet stricter liquidity requirements. But exactly these are to meet increasingly difficult in today's times. Banks not achieve high profits more, therefore the building equity is considerably more difficult.

⁷ <https://www.bis.org/bcbs/publ/d402.pdf> (04.04.2017)

⁸ <http://treasurypeer.com/dummies-2/solvency-ii-for-dummies/> (04.04.2017)

⁹ <http://treasurypeer.com/dummies-2/basel-3-for-dummies/> (04.04.2017)

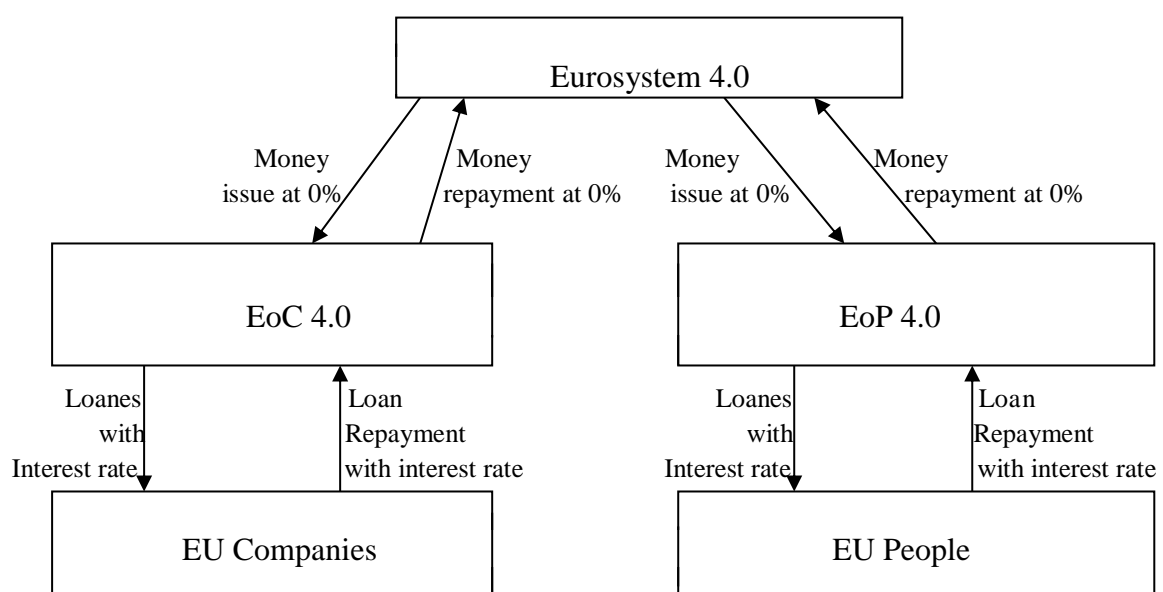
And for this very reason they also limit the amount of credit for the available capital under Basel III rules still sufficient. Instead of a credit boost done we have exactly the opposite. A squeeze on credit. And yet being discussed at the EU level even more higher capital ratios for banks. The loan financing are the vital importance particularly for small and medium enterprises. Think in this context to the ongoing financing of resources. And of course the investment. All of these are important factors for the economy and employment. European companies are about 75% loan financed and only 25% equity financed. This lets you quickly realize how dramatic the credit squeeze is by the wrong ECB policy. Therefore, the slowdown in the EU will continue. But, there are few alternatives.

In 2008, European banks brought very different collateral to their central bank, which then had to lend against illiquid loans to prevent a collapse of the system. To protect the interests of taxpayers, central banks lent only a proportion of the value of the assets provided as security. In effect, central banks were acting as pawnbrokers.

Therefore European Union needs Eurosystem 4.0 within the current trend of automation and data exchange in banking technologies. Eurosystem 4.0 include cyber-banking-physical systems, the Internet of banking things and cloud banking computing. Eurosystem should buy of all EU banks and integrate them as one Eurosystem 4.0 with two subsidies – EoC & EoP.

There are 4 design principles in Eurosystem 4.0. These principles support companies and people in identifying and implementing Eurosystem 4.0 scenarios:

- Interoperability: The ability of companies and people to connect and communicate with each other via the Eurosystem 4.0 of Companies (EoC) or the Eurosystem 4.0 of People (EoP).



Source: Author (03.04.2017)

- Information transparency: The ability of Eurosystem 4.0 to create a virtual copy of the physical world of European banks by enriching digital bank models with real data. This requires the aggregation of Eurosystem 4.0 Peer-to-Peer lending, offering direct 'peer-to-peer' loans in euro zone countries to EoC & EoP without the cost burden of a branch network, bank infrastructure and regulations with interest rate equal to key ECB/Eurosystem 4.0 interest rates.
- Technical assistance: First, the ability of Eurosystem 4.0 to support EoC & EoP by aggregating and visualizing information comprehensibly for making informed decisions and solving urgent banking problems on short notice. Second, the ability of Eurosystem 4.0 to support EoC & EoP by conducting a range of services that are unpleasant, too exhausting, or unsafe for EoC & EoP or “old fashioned banking”.
- Decentralized decisions: The ability of EoC & EoP consumers to make decisions on their own and to perform their tasks as autonomously as possible. Only in the case of exceptions, interferences, or conflicting goals, are tasks delegated to a higher level within Eurosystem 4.0.

If rich institutions will dominate the P2P market, regulations from the ECB have to intervene in order to reduce possible credit risks. Rich institutions should use the Eurosystem 4.0 of Companies (EoC) and the Eurosystem 4.0 of People (EoP) platform to provide loans and not dominate the market without any sort of regulations that could prevent them from doing immoral acts like in the NYSE or other markets. The Eurosystem 4.0 of Companies (EoC) and the Eurosystem 4.0 of People (EoP) should in the future replace traditional banking - and exert pressure out of companies and people. Given that the lion's share of banks' costs is things depositors nor borrowers want, need or like (giant buildings in prime locations, thousands of analysts who routinely underperform random selection and undeserved bonuses), perhaps even regular banks will realise what is increasingly becoming obvious to everybody else:

The ECB of the future is a server with a few guys running it, and a lean management team.

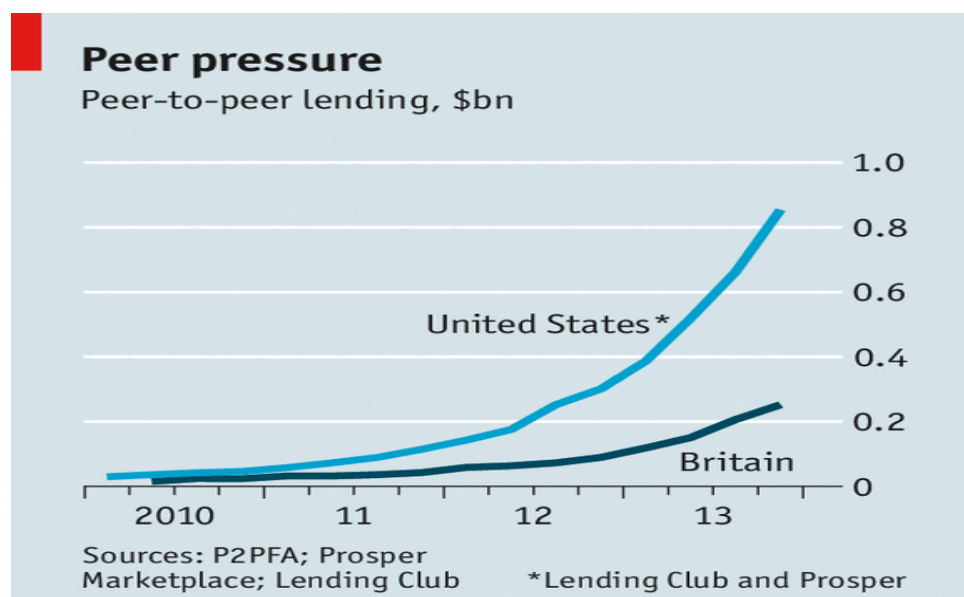


Figure 2 – P2P lending (USA and Britain)

Proposition model: In the decentralized monetary economy, with a Eurosystem 4.0 as monetary authority providing both interday and intraday loans via the Eurosystem 4.0 of Companies (EoC) to the European companies and via the Eurosystem 4.0 of People (EoP) to the European citizens, the market equilibrium is featured by:

1. At $t = 0$ Eurosystem 4.0 invest a share $\alpha = 0$ in safe projects, and promise via the EoC & EoP to clients $d_0 = \gamma R_2$ nominal return at $t = 1$ for each unit of deposit;
2. The Eurosystem 4.0 policy rate is 1 at $t = 1$, no matter what state the economy is in;
3. If it is in the good state at $t = 1$, the depositors receive $d_0 = pHR_2$ consumption, and the price level is $P'g = \gamma pH > Pg$;
4. If it is in the bad state at $t = 1$, the depositors receive $d_0 = pLR_2$ consumption, and the price level is $P'b = \gamma pL > Pb$;
5. EoC & EoP get access to the Eurosystem 4.0 interday loan facility in both states at $t = 1$: EoC & EoP get $(\gamma - ps)R_2$ ($s = \{H, L\}$) liquidity through interday loans, using the same amount of late projects as collateral. The interday loan will be repaid at $t = 2$, when late projects return.

The proposition is proved by backward induction. The story consists of two substeps:

(1) At $t = 1$, for the EoC & EoP with strategic profile (α, d_0) , the Eurosystem 4.0 needs to set its policy rate rSM that maximizes the EoC's & EoP's return in the state $s \in \{H, L\}$, i.e. $\max_{rSM} \gamma \{ \alpha R_1 + (1 - \alpha) [psR_2 + (1 - ps)R_2 r_s] \}$ in which $r_s = \min\{r_{s0}, rSM\}$. The EoC & EoP may borrow to the entrepreneurs at the rate r_{s0} , which is determined by $r_{s0} = \gamma(1 - \alpha)(1 - ps)R_2(1 - \gamma)[\alpha R_1 + (1 - \alpha)psR_2]$, and $r_{s0} \geq 1$ to allow entrepreneurs to participate. Obviously, the Eurosystem 4.0's optimal policy rate is $rSM = 1$ irrespective of the state;

(2) Known that $r_s = rSM = 1$ at $t = 1$, the EoC's & EoP's problem at $t = 0$ is to choose the strategic profile (α, d_0) that maximizes depositors' nominal return, i.e. $\max_{(\alpha, d_0)} d_0 = \gamma \{ \alpha R_1 + (1 - \alpha) [psR_2 + (1 - ps)R_2 r_s] \} = \gamma \{ \alpha R_1 + (1 - \alpha)R_2 \}$. Since $R_2 > R_1$, it is optimal to set $\alpha = 0$ and $d_0 = \gamma R_2$.

As for the aggregate real output and price level,

(1) In the good state, EoC & EoP collect γpHR_2 real return from early entrepreneurs. Using part of the late projects $(1 - \gamma)pHR_2$ as collateral, the EoC & EoP are able to borrow $(1 - \gamma)pHR_2$ to the early entrepreneurs at the interest rate $r'g = 1$. The Eurosystem 4.0's aggregate supply of money to the EoC & EoP through intraday loans is thus $\gamma pHR_2 + (1 - \gamma)pHR_2 = pHR_2$. The EoC & EoP can further borrow from the Eurosystem 4.0 at $rM = 1$ through interday loans, using the rest of late projects $\gamma(1 - pH)R_2 - (1 - \gamma)pHR_2 = (\gamma - pH)R_2$ as collateral. In the end, the depositors' nominal return, or aggregate money supply in the economy, is $M'g = \gamma pHR_2 + \gamma(1 - pH)R_2 = \gamma R_2 = d_0$, the same as that is promised in the deposit contracts.

On the other hand, the aggregate output at $t = 1$ is now $Y'g = pHR_2$, the aggregate demand for money in goods transaction $P'gY'g = M'g$ implies that the price level is $P'g = \gamma pH > Pg = 1$;

(2) In the bad state, EoC & EoP collect $\gamma pLR2$ real return from early entrepreneurs. Using part of the late projects $(1 - \gamma)pLR2$ as collateral, the EoC & EoP are able to borrow $(1 - \gamma)pLR2$ from the early entrepreneurs at the interest rate $r'b = 1$. The Eurosystem 4.0's aggregate supply of money to the EoC & EoP through intraday loans is thus $\gamma pLR2 + (1 - \gamma)pLR2 = pLR2$. The EoC & EoP can further borrow from the Eurosystem 4.0 at $rM = 1$ through interday loans, using the rest of late projects $\gamma(1 - pL)R2 - (1 - \gamma)pLR2 = (\gamma - pL)R2$ as collateral. In the end, the depositors' nominal return, or aggregate money supply in the economy, is $M'b = \gamma pLR2 + \gamma(1 - pL)R2 = \gamma R2 = d0$, the same as that is promised in the deposit contracts. On the other hand, the aggregate output at $t = 1$ is now $Y'b = pLR2$, the aggregate demand for money in goods transaction $P'bY'b = M'b$ implies that the price level is $P'b = \gamma pL = \gamma[\alpha HR1 + (1 - \alpha H)R2] / pL$. $[\alpha HR1 + (1 - \alpha H)R2] / pL > \alpha HR1 + (1 - \alpha H)pHR2$ $\alpha HR1 + (1 - \alpha H)pLR2 = Pb$.

Proposition model states that constrained efficient solution is bound to break down in the monetary economy, when a Eurosystem 4.0 conducts active monetary policy, using a short-term interest rate as a policy instrument and providing liquidity to the EoC & EoP via interday loans. This is due to the moral hazard arising from Eurosystem 4.0 time-inconsistent policy: Suppose that EoC i deviates from the constrained efficient solution by setting $\tilde{\alpha} < \alpha^*$ and $\tilde{d}0 = \gamma[\tilde{\alpha}R1 + (1 - \tilde{\alpha})R2]$ at $t = 0$, then EoC will suffer from liquidity shortage at $t = 1, 2$ even in the normal state. Although in the normal state the Eurosystem 4.0 would like to commit to setting its policy rate well above 1, it is now ex post optimal for the Eurosystem 4.0 to cut its rate to 1 to avoid the EoC's failure. However, this means that the total nominal payoff that EoC i can get is $\tilde{d}0 = \gamma[\tilde{\alpha}R1 + (1 - \tilde{\alpha})R2] > \gamma[\alpha^*R1 + (1 - \alpha^*)R2] = d0^*$, i.e., this deviator can offer higher nominal return to its depositors and outbid all its rivals. Knowing this, EoC & EoP will have an incentive to hold liquid assets at $t = 0$ and the Eurosystem 4.0 will be forced to choose low interest rates in both states. Although EoC & EoP get a higher nominal return, their real consumption is below the constrained efficient solution since too many projects are postponed to $t = 2$. Thus, EoC & EoP could be trapped in the inferior equilibrium.

5. CONCLUSION

This paper developed a small framework for analyzing the roles of money in Eurosystem 4.0, both as a medium for transactions and as EoC & EoP liquidity. In the model, EoC & EoP provide a maturity transformation service to depositors. With fixed deposit contracts and aggregate liquidity risk, the fragile structure of banking triggers EoC & EoP runs in the bad state, leading to socially costly liquidation. Ideally, in a monetary economy with nominal deposit contracts, a Eurosystem 4.0 conducting active monetary policy can eliminate such costly liquidation and replicate the first best solution. Money is issued by the Eurosystem 4.0 through (1) intraday loans to the EoC & EoP, as a medium facilitating transaction, and (2) interday loans to EoC & EoP, or standing liquidity facilities, to accommodate their demand for liquidity, using illiquid long assets as collateral. In good times, EoC & EoP can borrow from the liquidity market to meet depositors' demand; while in bad times when EoC & EoP suffer from liquidity shortage, the Eurosystem 4.0 will inject liquidity to the market through liquidity facilities, making sure EoC & EoP can still fulfill their nominal deposit contracts. The Eurosystem 4.0's policy rate should be high in good times to encourage the efficient market outcome, while it should be low in bad times to avoid runs. Unfortunately, such a scheme cannot be an equilibrium market outcome. Absent liquidity regulation, EoC & EoP always have incentives to invest excessively in illiquid assets and obtain liquidity from the Eurosystem 4.0 to maximize depositors' nominal return. EoC & EoP are more likely to have liquidity shortages even in good times. So the Eurosystem 4.0 will be forced to reduce its policy rate to prevent EoC & EoP failure. As a result, the economy will end up in an inferior equilibrium: EoC & EoP

overinvest in illiquid assets, the Eurosystem 4.0 has to keep policy rate low, and depositors are worse off through lower real consumption. We show that using interest rate rules to deter EoCs' & EoPs' excessive risk taking is not credible for implementing the constrained efficient allocation, because of a time inconsistency problem: Once EoC & EoP engage in excessive liquidity risks ex ante, it is always ex post optimal for the Eurosystem 4.0 to reduce the interest rate. An additional instrument, such as imposing a liquidity coverage requirement ex ante, is needed to restore efficiency in the monetary equilibrium. For future research, I would like to make the model more adaptive to the real market, such as Eurosystem 5.0 supernetwork model that includes the third-party competitive platforms of credit information service, which might reduce the credit risks of some lenders. Eitherway, it is more efficient for Eurosystem 4.0 to monitor only EoC & EoP than one hundred banks in the EU.

(The research for this paper was conducted independently and without any financial support of the European Central Bank. The views in this paper are those of the author and do not represent those of the ECB.)

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ECONOMIC GROWTH AND DEVELOPMENT - 4 WHEEL MODEL WITH SPECIAL EMPHASIS ON INVESTMENT IN HUMAN CAPITAL AND TECHNOLOGICAL INNOVATION

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ABSTRACT

The complexity of today's environment requires an integrative approach in the analysis in order to define new models of economic growth and development. Considering the numerous studies in the categorization of developed, developing and underdeveloped countries, it can be seen that as a criterion it is usually taken the GDP per capita. However, a deeper analysis leads to the other variables, such as life expectancy, education, health care, the use of modern technology and etc. which are in direct correlation with the development of a country. Considering, this fact, it is clear that the creation of new economic models for sustainable development must include the human aspects, which have been largely neglected, so far in economic theory. Past models were based primarily on the use of the basic factors of production. As the example of this is Switzerland, the first ranking country in the Global Competitiveness Index for the last eight years. But also the same ranking country in the efficiency of the work force, innovation and readiness in accepting the new technologies. Switzerland is fourth ranking in index of education and eight of the health care index. These indicators show us precisely the importance of human capital in creating a new framework for economic development.

The new model of economic growth and development must include the four aspects, namely: human capital, innovation and technology, capital investment and natural resources. An important role in the formation of such a model of sustainable economic growth and development must have the government, as the main strategist in defining desirable priorities.

Keywords: *Economic theories, economic growth, human capital, technology innovations*

1. INTRODUCTION - HISTORICAL OVERVIEW OF ECONOMIC THOUGHT

Economics as a science, provides an explanation of functioning the mechanism of the economy as a whole and creates recommendations for policy model of economic growth and development, in order to manage the economy properly. First of all, it provides the measures and instruments that will achieve economic growth and development within the national borders and outside of them. It is interesting, that the period in which is created a new theoretical direction of the economy, is characterized by a lot contradictions. First, the need for a broader, macroeconomic approach consideration of a national economy, came in the crisis period in the thirty years in 20th century, in the time of complete chaos and imbalance. Second, the basic mission of economy as a science is to refer to a way of achieving macroeconomic balance. During the development of the economy as a science and different economic learnings and thoughts there was and there is still a dilemma among economists concerning the role and

contribution of the state in managing a country's economy and achieving the economic growth and development. After the World War I a new era was occurred, so-called "new era", and brought different opinions. One group of economist considered that the high economic activity is the result of moving from wartime to a peacetime economy. Others considered that the high productivity in economy result of free competition and state liberalism in so called "new era" model. Soon, denial was followed. Big economic crisis occurred at the end of the October 1929, the longest and sharpest downfall of the economies ever experienced until then. It began in the United States with decline of shares and bonds in the stock markets, which resulted in the drastic decline in production, a dramatic rise of unemployment and inflation (Stojanović, 2008). That period was called the black days of economy. After the crash, which drastically affected the British economy also, classical economic theory failed to pass a difficult historical exam (Josifidis, Đukić, 1994). In such situation occurred an urgent need to analyze the different aggregates, such as: production, consumption, capital, income, employment, and the like. Even, that in the period of the First World War were formed the State Administration for Industrial Mobilization and the Council of National Defense (CND), (Stojanović, 2005) as the announcement of increasing role of the state, it was not enough for analyzing the events such as the Great Depression in 1929th year. There was the lack of statistical service which would timely provide appropriate statistical data of the economy of a country as a whole. After the Great Depression from 1929 to 1933 when state regulatory interventions and economic functions entered the scene, it was highlighted the importance of statistical services which could provide a review of data on the economic life. Former economic learning as the classical economic thought, which analyzed the behavior of individual economic entities in the management of the limited natural resources and the country as a whole, has been replaced by the new economic direction. The new direction made the difference between two aspects: observation and analysis the individual's economy and the economy as the whole. In economic theory, there has been a change in the economic teaching. Economy as the science was enriched by two new concepts (two new directions - microeconomics and macroeconomics) introduced by Nobel laureate Ragnar Frisch in 1933 (more about Ragnar Frisch from <http://www.nobelprize.org>). The Great Depression of thirties in last century, not only contributed to the emergence of new economic direction, but for the creators of the future economic model of growth and development, provided an example of the economic imbalances and remained in history as the experience of the US economy, which should be evaluated and re-investigated, in order to learn the lessons (Bernanke, 1994).

Economy as the science includes economic theory, economic policy, and the range of economic activities which provides us the qualitative and quantitative analysis of economic processes. Through the historical development of economic thought all economic directions and theorists as well, tried to explore and explain the various economic problems that have piled up over time. As they posed the new economic goals, such the problems were complicated. Such as the thirties of the last century, had lacked the statistical services for timely disposal of appropriate statistical data on the country economy as a whole, so the modern era is characterized by the need for deeper analysis of other variables, not just the GDP per capita (which is a criterion for analysis, usually takes) for the wealth of some nation. Key theoretical direction of macroeconomic thinking is that quantitative and qualitative analysis follows the movements and behavior of certain aggregates (GDP, inflation rate, unemployment rate, the share of the budget deficit, debt to economic growth ...) and finds the most convenient way for their guidance, in order to increase economic activity and economic growth and development of a country. Innovative variables are related to: life expectancy, education, health care, the use of modern technologies and similar within the correlation of country development.

It is clear that the creation of new economic models for sustainable development must include the human aspects, which in current economic theory largely has been neglected, because the current models were based primarily on the use of the basic factors of production. The complexity of today's environment requires an integrative approach in the analysis in order to define new models of economic growth and development. The creators of the economic model of growth and development have always been searching for the answers to the following questions:

- What cause that the economy sometimes leads to instability, falling employment and the threat to production sphere and how to reduce unemployment?
- What is the main source and cause the second great problem of economy, called inflation? How and by what measures and instruments to keep inflation under control?
- Which is the most effectively way for increasing rate of economic growth?

Modern approach to creating the model of economic growth and development, with improved and updated variables, raises the following questions:

- How to restore the natural resources and to develop awareness among the various stakeholders on the rational use of scarce natural resources?
- What is the life expectancy in the country? How to extend the life and improve the living standard?
- How much is developed consciousness for the use of modern technology in population and what is the government role in that?
- How to increase capital investments?
- How much funding is necessary to allocate the budget to improve the quality of life of people through basic and further training, education, health care programs and social programs?

With answers to the above questions it should be created the complex analytical model of economic growth and development. Modern environment analysis leads to the fact that previous models formed on the natural resources and capital investments do not provide sufficient economic strength towards sustainability models, and it need to include innovation and technology and human resource in the model. The role of the state in previous models was one of the key issues. In the formation of a new model it appears as chief strategist in defining desirable priorities.

2. DETERMINANTS OF ECONOMIC DEVELOPMENT

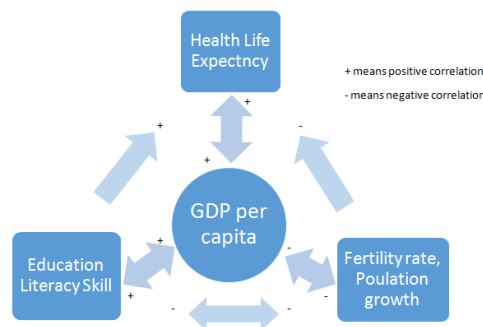
Reviewing today's environment it is easy to perceive its complexity, and the strong correlation of certain environment variables that at first glance does not seems integrative. However, after more frequent, but also more powerful, more complex and more frequent economic crises, it became clear that it is necessary for economic researches to be directed at finding a new economic model that will have potential answers to the current problems with integrated approach with greater influence of social variables. In defining the efficiency of the economic model, in terms of the level of development of the country, it has so far been largely adopted indicator (variable) such as GDP per capita. However, in recent years were conducted numerous studies in the categorization of developed, developing and underdeveloped countries, indicated that the mentioned indicator is in direct correlation with other variables, such as life expectancy, education, health care, the use of modern technology, etc.

Table 1. Human Capital Indicators (Development of Nation, 2016)

Country of Group	2005 income Per Capita (U.S. \$)	2005 PPP	Life Expectancy (years)	Prevalence of Under-nourishment (%)	Under-5 Mortality per 1,000 Live Births	Crude Birth Rate	Adult Literacy	
							M	F
Income Group								
Low	585	2,486	59	24	114	29	71	50
Low middle	1,923	6,314	70	11	39	16	93	85
Upper middle	5,634	10,931	71	4	27	16	96	93
High	35,264	32,550	79	3	7	10	99	98

The above table clearly observed correlations between variables such as life expectancy, literacy, birth rate, etc. with the amount of GDP. The higher GDP per capita rising literacy rate and life expectancy, while reducing the birth rate. Therefore, in the model creation of economic growth significant correlation to GDP have certain social and health variable. Rajiv Desai indicates a causal correlation between the previously mentioned variables (Figure 1). He sees the positive correlation between GDP, education, literacy, life expectancy, and negative correlation seen in the growth of the population, what else Malthus pointed out.

Figure 2. Correlation between indices for development (Development of Nation, 2016)



3. FOUR WHEEL MODEL

Samuelson and Nordhaus, indicating the complexity of the environment and the characteristics of the economic model, which includes not only economic, but the greater social and natural variables. Such a model of economic growth and development are called Model of 4 Wheel. Model ranks (Samuelson, Nordhaus, 1998):

1. Human capital
2. Natural resources
3. Capital formation
4. Innovations and technology

Human capital is considered to be (due to its importance in innovative activities and technological progress) the new foundation of the theory of economic growth, not only as an individual but as the factor in its synergistic effect as an accelerator with work productivity and physical capital. In the conducted research by Gould, D.M. & Ruffin, R. J. it was found that

whit a relatively high literacy rate, open economies grow rise around 0.65 to 1.75 percentage points more than in the closed economies(Gould, Ruffin, 1995). In a survey conducted in 33 countries, of which 21 countries with low to middle-income and 11 industrialized countries was established a direct negative correlation between the HDI (Human Development Index) with the level of GDP, life expectancy and education. The level of HDI is strongly correlated with the amount of GDP, and moderate correlation has with poor education and with a life expectancy. Further interesting fact provided by the mentioned study is that 1/5 of the richest in poor countries have the better life than 1/5 of the poorest in rich countries.(Grimm, Harttgen, Klasen, 2010). To the similar conclusions came Robert Barro, also. He points out in his research that in the 98 countries in the period 1960-1985, the growth rate of real GDP per capita is positively correlated with the enrollment of the school, so with the human capital. He also points to the fact that countries with higher levels of human capital have higher rates of capital investment. Growth is associated with inverse proportion to the consumption of a budget to GDP, as well insignificantly associated with participation in a public investment, positively correlated with measures of political stability and in inverse proportion to the market disorders. (Barro, 1991)

Natural resources and their preservation, especially arable land are one of the most important tasks and valuable resources by Samuelson and Nordhaus. However, they also point out that the country's productivity is directly correlated to its appropriate use what brings us back to the importance of investing in human capital, which will indirectly lead to positive correlation in technology and innovation. Therefore, investment in human capital will lead to innovations that will influence the development of technology, and with feedback on the utilization of natural resources. In this sense, the use of natural resources will be put into function of the rational use and sustainable economic growth. Globalization carries the new features of neo-colonialism. Prior goal in front of developing countries is the dilemma how to realign and as painlessly as possible join the mainstream world of globalization. Developed countries seek for new form of colonialism, which will led them in the competition achieved economic supremacy. In such an economically and politically unequal struggle strategic interest in joining the global flows for developing and undeveloping countries strategic advantages should be: natural resources and intellect. For the process of integration into the global market it is not enough to possess equity in natural and human resources, but it is necessary to use it effectively. The way how the potential will be used is the strategic issue for the small national economy. Natural resources could be potential of developing countries. However, the fact is that this potential can be easily exploited by the developed countries. Finding the optimal way of utilizing the potential of natural resources in the process of assimilation into the world of global flows presents a huge problem for developing countries that are still undergoing the process of transition, the creation of macroeconomic and microeconomic business conditions. The primary task is the natural potential transform into the competitive advantage in the market. Efficiency and effectiveness in transforming natural resources into competitive advantage are the economic axiom in the strategy of developing countries. The principle of universal exploitation should be replaced by the principle of efficient and effective exploitation. The former principle of the industrial type of technology, which was based on the nature as a basis, is necessary to replace the post-industrial type of technology with work in the function of preserving the natural environment. The secondary task is to place a product on the market. Developed countries exploit the natural resources of underdeveloped and developing countries, instead those countries itself create the strategy of competitive advantage based on natural resources and thus include in the global market. Developing countries can take advantage of market liberalization and in this regard attempt to build a strategy. Strategic and long-term decisions, focusing on individual clusters, economic grouping with investments in intellect and small businesses can find a way of their

market positioning. Creating their own value chain, using the experience of developed countries, is a key instrument of success. The strategy of countries rich with natural resources has been represented the attitude for placement of the raw materials, which was the initial and cheapest link in the value chain. Rich countries, based on the low cost of the initial link in the value chain, have been created a value chain that is as a whole placed at extremely high levels. Placement of the finale products creates multiple benefits, as opposed to the sale of raw materials (Dragičević, 2005).

Capital formation represent the strength of the developed countries. The accumulation of capital and the development of the financial markets is positively correlated with the economic development level of the country. In poor countries, the accumulation of capital is only around 5%, while the percentage in developed countries is over 20%. (Samuelson, Nordhaus, 1998) Capital investment in building competitiveness is a prerequisite expressed primarily through investment in infrastructure, telecommunications and energy. Economic progress cannot be achieved without having increased capital investments. Thus, for example, the country as Switzerland ranked first by global competition index (GCI), on a scale of 1 to 7 has a 6.2 index for the infrastructure and has the 6th position and 6.5 point for the overall quality of the infrastructure and is 1 ranking. While Serbia has only 3.9 points and ranking on the 74th place, while in terms of quality has a 3.2 index points and occupies the 107 place out of 138 countries (WEF, GCI Report 2016-17).

Innovation and technology are the results of the great revolution in knowledge, which is with the internet appearance enabled management and organization in a completely new way, based on the productive use of knowledge. Knowledge has become easy (and relatively cheaply) available for all, anywhere and anytime, in the unlimited space of the computer, so we are facing the revolution of knowledge which transformed the education into an ultra-efficient "technology" which follows the contemporary changes. Knowledge has become a priority and a strategic resource, which requires new ways of organization: tasks must be performed in a completely different way from the traditional, which requires flexible and innovative (often virtual) form of organization, which will create conditions for a constant flow of creative achievements. It is believed that the flow of information exchange through the Internet doubles every hundred days, because the transaction costs of sending information by e-mail less than the usual few dozen or even a hundred times. Information and knowledge are significantly different from traditional production resources, primarily with it in exhaustibly and unlimitation, as well as the inability to accurately measure the cost of creating "information products". Information technology allows the separation of production from natural resources, capital from production, the manufacturer from production process, the existence of people from physical labor, etc. Knowledge, information, skills, innovation and revolutionary ideas push the boundaries of social and economic growth and development, and becoming the key wealth and production resource and have dominant role in direction to the movement of "global order" according to so-called postindustrial era. The technological boom has contributed to the increasing efficiency of all other forms of production and thus create real conditions for the realization of the long-standing idea of creating the more humane and more homogeneous "light of the world" (the term M. Gefter) of different economies, politics, cultures, nations, civilizations and space. Technological changes are accompanied by revolutionary changes in the economy and politics, because, in the broadest sense of the term economic and political power passes into the hands of the information producers. In the Republic of Serbia, it was conducted the survey on the use of information and communication technologies in households by the National Statistics Office (NSO). A representative sample is 2400 households within national borders.

Some of the conclusions of the research related to households are as following (NSO, 2016):

- The situation in possession of computers in households has improved, 65.8% of households have a computer, which was an increase of 1.4% compared to 2015 and 2.6% compared to 2014. Computer use in households varies depending on the territory: in Belgrade is 75.9%, Vojvodina 67.7% and in central Serbia 59.4%. The largest number of households have a computer (79.8%), while the two computers have significantly fewer households (15.4%).
- The largest gap in terms of computers in households is evident in the structure of households by monthly income. Computers mostly have a households with a monthly income over 600 euros (95.0%), while the percentage of other ones with income up to 300 euros is only 47.1%.
- The availability of the Internet connection itself owns 64.7% of households, which was an increase of 0.9% compared to 2015 and 1.9% compared to 2014. Representation internet connection is in Belgrade and amounts to 73.1%. In Vojvodina it is 68.7% and in central Serbia 57.9%.

Research on the use of information and communication technologies in enterprises was conducted on a representative sample of 1673 companies in the Republic of Serbia. The sample includes manufacturing, electricity, construction, wholesale and retail stores, transportation, information, administration and the like. Some of the conclusions of the research related to the company are following (NSO, 2016):

- According to the criterion of business computing, 99.8% of companies use computers and have access to the Internet in their business.
- According to the business activity research shows that enterprises in the field of civil engineering (100%) are most uses the electronic government services. In fact, in 2015, 41.0% of enterprises ordered goods / services over the Internet which was a decrease of only 0.7% compared to 2014 and an increase of 0.6% compared to 2013.
- Social networks are increasingly common in business, which is supported by the research results. They shows that 36.1% of enterprises used some of the social networks for business operations.
- According to the structure of enterprises by size, the results are as follows: 34.5% of large enterprises, 23.9% of medium-sized enterprises and 22.5% of small businesses were receiving orders over the Internet

Based on Table 2 it can be seen that in the Republic of Serbia in 2015, part of the budget that relates to investment in education, basic and other formally and informally (to continuous learning, to acquire knowledge, skills and different abilities) is 12.7%. The share of funds invested in education should be increased. But most of the budget, about 33.3% is allocated to social protection, which according to the Law on Social Protection (Official Gazette of RS, No.24 / 2011) is an organized social activity of public interest aimed to providing assistance and empowerment for independent and productive life in society of individuals and families, as well as preventing the formation and elimination of consequences of social excluding. Both aims are related to the development of human capital, through various levels of education for improvement of independent life and work. Thus, both categories are related to the human factor.

Table 2. The structure of expenditure in the budget for 2015 (Eurostat, 2015)

	Serbia	Switzerland
Category	<i>Percentage in GDP</i>	
Economics affairs	11,3%	3,7%
Public order and safety	9,5%	1,7%
Defense	5,0%	0,9%
Environmental protection	0,5%	0,7%
Health	1,4%	2,2%
Recreation, culture and religion	1,9%	0,8%
Education	12,7%	5,8%
Social protection	33,3%	13,5%
General public services	24,1%	4,3%
Housing and community amenities	0,4%	0,2%

Table 2 clearly evident that main leaders of Serbian economy does not allocate sufficient budgetary resources for the preservation of natural resources. Specifically, for the category of environmental protection allocates only 0.5% of total assets. Knowing the human needs are unlimited, and natural resources are limited and scarce, it is essential that the economic strategists of a country deal with this issue, so the response has been implementation the basic principle of nature, the rational use of natural resources. The basic principle of economics as a science is the existence of rationality in decision making, both the suppliers and on the consumer side. However, we often forget to respect those principles. If we look at the budget of Switzerland as the most competitive country, we recognize that their budget allocations are largest, precisely in the area of human capital. Thus, in Switzerland the largest percentage of the budget expenditure towards participation in GDP has social security 13.5%, followed by education 5.8%, general public services 4.3% 3.7% economic affairs and health 2.2%. It also recognizes, based on the amount of participation it is many times higher in Serbia than in Switzerland, which implies precisely the assumption that in less developed countries the role of the state is more pronounced and stronger. Comparing the four variables defined Switzerland as a highly developed country and Serbia as developing countries, on the basis of budget expenditures (Table 2) and the Competitiveness Index (Table 3) we can reach the following conclusions:

- Appropriations from the budget to GDP Serbia and Switzerland are fairly similar level when it comes to spending on environmental protection, but after screening competitiveness index in the cost of agricultural policy, Switzerland is on the 61st place, and Serbia on 132nd place, which can lead to the conclusion in efficient use of natural resources in agriculture in Serbia.
- Budget expenditures for the health system in Switzerland are up to 2.2% and 1.4% in Serbia, but by the competitiveness Serbia is at 53rd place, and Switzerland is at 8th, which is indicating a more efficient and better investment in human resource in richer countries.
- Looking at the budget expenditures for education, participation of these expenditures to GDP is twice more in Serbia, but the positioning of the competitiveness index is drastically worse when it comes to higher level of education and training (63rd of Serbia towards the 4th place of Switzerland), which indicates poor efficiency of the developing country in the area of education.

- According to the analytical indicators of quality of primary education Switzerland is ranked in 2nd place in Serbia on 81st
- Life expectancy is shorter in Serbia as a developing country and it is 75.5 years. In Switzerland as a developed country it is 82.8 years.
- According to the built infrastructure, Switzerland is 6, and Serbia 74 ranking. When it came to the quality of infrastructure Switzerland is 1st, and Serbian 107th.
- Following the development of the financial market Switzerland is 8 and Serbian 110.
- Wages and labor productivity, as an analytical parameter indicates that Switzerland is the first place, and Serbia on 107th place
- In the technology readiness, Switzerland is in first place, and Serbia in 70th place, and in terms of innovation, Switzerland is in first place, and Serbia on 107th place

*Table 3. Global Competitiveness Index – 12th Pillars Serbia and Switzerland 2016-2017
- Comparison (Global Competitiveness Index 2016-17)*

	Category	Serbia		Switzerland	
		0-7	of 138 countries	0-7	of 138 countries
1.	Institutions	3,3	115	5,9	6
2.	Infrastructure	3,9	74	6,2	6
3.	Macroeconomic environment	4,1	103	6,5	4
4.	Health and primary education	6,0	53	6,6	8
5.	Higher education and training	4,4	69	6,0	4
6.	Goods market efficiency	3,8	121	5,4	6
7.	Labor market efficiency	3,8	106	5,9	1
8.	Financial market development	3,4	110	5,3	8
9.	Technological development		70	6,4	1
10.	Market size	3,6	74	4,6	39
11.	Business sophistication	3,2	125	5,8	1
12.	Innovation	3,0	108	5,8	1

So there is a clear correlation between the variables from the 4 wheel model (human capital, natural resources, technology and innovation and capital formation) when it comes to the level of development of a country. GDP per capita cannot be the only variable, as a measure of wealth in the new model of economic growth and development. The analysis indicates that the overall efficiency of the model is to be measured across all four variables, because they are in direct correlation.

4. CONCLUSION

Previously conducted analytical - comparative study indicates the need for complex analysis in creating a new model of economic development. It also points to the fact that the development of a country cannot be measured solely by GDP per capita and defining model of economic development have a direct correlation factors from the four wheel model: natural resources, human capital, capital formation and technology and innovation. The conducted analysis has clearly shown that investment and human capital has the primary role and positive correlation in building the wealth of a country, which has been confirmed in a comparative analysis of

developing countries such as Serbia and developed countries, according to a position of competitiveness in the world number one, such as Switzerland. So we confirmed the hypothesis that the new model of economic growth and development should include four aspects, namely: human capital, innovation and technology, capital formation and natural resources. An important role in the formation of such a model of sustainable economic growth and development must have a state, as the chief strategist in defining desirable priority.

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MARKETING PERSPECTIVE: FACTORS AFFECTING ENVIRONMENTALLY CONSCIOUS CONSUMER BEHAVIOR

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ABSTRACT

In this paper, 41 empirical articles, from 2000 to 2017, on environmentally conscious purchase behavior are reviewed. With the increase in environmental problems, consumers become more ecologically conscious and through their individual behavior they contribute to their solving. Green purchasing power grows steadily and it is accompanied by theory and business with the aim to identify moderators of green purchase behavior. Since there is no unified stance on this topic, it is an interesting field for a new research, which can give a new insight or a guideline to policy makers, marketers and managers and help them to encourage green purchasing. Besides being a review of factors that were of interest to the researchers in the observed period, this paper can be basis and a guideline for future studies, new marketing strategies as well as for legislators.

Keywords: *Environmentally conscious consumer, Green purchase behavior*

1. INTRODUCTION

The environmental movement that began in the 60s of the last century tried to focus public attention on problems related to pollution and environment (Carson, 1962). Nowadays these problems are no longer only environmental activists concern because they have become our reality: global warming, problems with drinking water, disposal of waste and hazardous materials, exhaustion of non-renewable resources. Increased social and political pressure resulted in environmental policies and acts, such as NEPA (The National Environmental Policy Act) in the USA which forced companies to take care of products of their manufacturing process, such as waste and carbon emissions. Also, business started to change their product formulas and manufacturing methods, materials, packing, distribution and promotion (Roberts, Straughan, 1999). However, there are opinions that it is a profit that actually drives business orientation towards environmental responsibility, through competitive pressure as well as the rise of environmentally conscious consumers (e.g. Straughan, Roberts, 1999; Kim, Choi, 2005; Green, Pelozo, 2014). The significance of this market is best illustrated by examples (European Commission, 2016):

- The global market for low carbon environmental goods and services in 2012 was estimated at €4.2 trillion,
- More than 400 environmental labels were registered worldwide in 2016,
- Research conducted in the European Union in 2013 found that 26% of respondents said they often buy green products and 54% stated that they sometimes buy green products.

Business has not remained silent on this. Besides green goods and services, there are CSR (Corporate Social Responsibility) policies, business strategies that are environmentally oriented, different types of monitoring and reporting on environmental indicators (European Commission,

2016). Environmentally conscious consumers are an object of interest to scholars as well (Webster, 1975; Straughan, Roberts, 1999; Chan, 2001; Tilikidou et al., 2002; Magnusson et al., 2003, Diamantopoulos et al. 2003; Kim, Choi, 2005). Almost five decades of research have not brought unified segmentation of green consumers nor a wide accepted method that will be used (Haws et al. 2014). Tilikidou and Zotos (1999) dealt with this topic by making a 1971-1998 literature review addressed to conscious consumer behavior, in which they have identified all tested independent variables. Joshi and Rahman (2015) did a literature review upon attitude - behavior inconsistencies in the context of green purchasing from 2000-2014. The aim of this paper is to provide a literature review of scientific papers published in the period from 2000 to 2017 which have examined the environmentally conscious consumer behavior. Besides integrating and providing an overview of papers related to this subject, we will try to find out what was interesting to scholars and to identify factors that affect green consumers' behavior.

2. ENVIRONMENTALLY CONSCIOUS CONSUMERS AND FACTORS AFFECTING THEM

Environmentally conscious consumer behaviors are "those consumption activities that have a less negative or more positive effect on the natural environment than substitutable activities" (Pieters, 1991, referenced by Green, Peloza, 2014, p. 128). As a response to increasing environmental problems, consumers are modifying their purchase behavior. They are "trying to help solve such problems through their individual behaviors" (Makeower, 2009, p. 85). Other definitions and explanations in the literature go along the similar lines (Straughan, Roberts, 1999; Kim, Choi, 2005). However, the discrepancy arises in the description of this customer segments and influencing factors. Weigel (1977) has described environmentally conscious consumers as white people, young, generally well educated and members of higher social classes, who have liberal socio-political views (p. 39). If we neglect the time distance of this research, this description is likely to be applicable only to the population that has been subject of the research, in this particular case a medium-sized New England town, and cannot be generalized. A similar situation is with other studies (Chan, 2001; Kim, Choi, 2005). Furthermore, scholars reported different results for the same influencing factors, which makes it difficult to reach general conclusions. Generally, all factors can be divided into the following groups (Trandafilović, 2013, pp. 93-104): geographical, (e.g. terrain, climate, population density), demographical (e.g. gender, age, education, employment status), economic (e.g. macroeconomic conditions, purchasing power), psychological (e.g. motivation, perception, learning), sociological (e.g. culture, reference groups, family, lifestyle) and situational (e.g. purchases circumstances, natural environment).

3. METHOD

Considering that the aim of this paper is a literature review, our first step was a search of published articles addressed to environmentally conscious consumer behavior in scientific journals. Papers were identified through a systematic search procedure that implied database (EBSCO) search using the given keywords. The following keywords were used: "environmentally conscious consumer behavior", "environmentally conscious consumers", "green consumption", "green consumers". The first selection of papers was related to year of publishing, to comply with the given time interval from 2000-2017. Further selection was conducted by reading. In this way, we came to 41 empirical articles from 2000 to 2017 on environmentally conscious purchase behavior. Following steps were aimed at identifying independent variables and their reported impact.

4. FINDINGS

4.1. Literature review in period 2000-2017

As previously mentioned, there are 41 empirical articles on environmentally conscious purchase behavior between 2000 and 2017. All of these papers are presented in Table 1 with their basic characteristics.

Table1: Published studies from 2000 to 2017 on environmentally conscious purchase behavior (compiled by authors)

Study no.	No. of respondents	Year	Author
1	549	2001	Chan
2	99	2002	Tilikidou et al.
3	1.154	2003	Magnusson et al.
4	1.627	2003	Diamantopoulos et al.
5	250	2004	Sanjay, Gurmeet,
6	304	2005	Kim, Choi
7	573	2006	Fraj, Martinez
8	1.043	2008	Krystallis
9	223	2008	Lea, Worsley
10	660	2008	Tsakiridou et al.
11	887	2008	do Paço et al.
12	600	2010	Cerjak et al.
13	109	2010	Connell
14	157	2010	Paladino, Smith
15	529	2011	Aertsens et al.
16	6.010	2011	Lee
17	250	2011	Rahbar, Wahid
18	261	2011	Kim
19	191	2011	Albayrak et al.
20	771	2012	Thøgersen et al.
21	800	2012	Vega-Zamora et al.
22	150	2012	Saleki et al.
23	1.502	2012	Akehurst et al.
24	227	2013	Eze, Ndubisi
25	325	2013	Kozar, Connell
26	1.175	2013	do Paço et al.
27	1.002	2013	Tsarenko et al.
28	2.226	2013	Vicente-Molina et al.
29	457	2013	Zhua et al.
30	419	2013	Marques, Almeida
31	319	2013	Wan et al.
32	200	2014	Anvar, Venter
33	85	2014	Handique
34	100	2014	Sen
35	200	2015	Irianto
36	326	2015	Dagher et al.
37	402	2015	McCarthy et al.
38	715	2015	González et al
39	100	2016	Nehanahajan
40	19.000	2017	Lee et al.
41	305	2017	Hidalgo-Baz et al.

4.2. Demographical, psychological and economic factors

Demographical. There are only 6 studies which examine the link between green purchase behavior and demographic. In the majority of them, gender (5 studies), age (5 studies) and educational level (4 studies) appears as the independent variable. Diamantopoulos et al. (2003), Dagher et al. (2015), and McCarthy et al. (2015) have come to the conclusion that women are more environmentally conscious consumers. However, Magnusson et al. (2003) and Cerjak et al. (2010) concluded that there is no significant correlation between gender and green purchase behavior. McCarthy et al. (2015) found that presence of children in the family certainly influences the purchase behavior and that it is positively correlated, while Diamantopoulos et al. (2003) found the opposite. On the other hand, Cerjak et al. (2010) haven't found a significant correlation on this matter. Overview of the results is presented in Table 2.

Psychological. Psychological factors were very interesting to researchers. While researchers limited their studies to a few demographic factors, in the case of psychological factors there was an opposite situation. The most common examined independent variables were: attitudes toward green purchase (11 studies), environmental concern/values (17 studies), consumer perceived efficiency (12 studies), and ecological knowledge (12 studies). Positive correlation between attitudes toward green purchases and green purchase behavior was reported in the majority of studies (Chan, 2000; Tilikidou et al., 2002; Fraj, Martinez, 2006; Saleki et al., 2012; Thøgersen et al. 2012; Anvar, Venter, 2014). Only Paladino and Smith (2010) reported non-significant correlation. While Paladino and Smith (2010) and Saleki et al. (2012) indicated that there is no significant correlation between environmental concern/values and environmentally conscious purchase behavior, other studies reported positive correlation (Sanjay, Gurmeet, 2004; Kim, Choi, 2005; Eze, Ndubisi, 2013; Kozar, Connell, 2013; do Paço et al. 2013 Handique, 2014; Dagher et al., 2015; Irianto, 2015;). Only one study reported not a significant correlation between perceived consumer effectiveness and green purchase behavior (Paladino, Smith, 2010). The other reported positive correlation for the same issue (Sanjay, Gurmeet, 2004; Kim, Choi, 2005; do Paço et al., 2008; Albayrak et al., 2011; Akehurst et al., 2012; Wan et al., 2013; Vicente-Molina et al., 2013; Marques, Almeida, 2013; Handique, 2014; Kim, 2014; González et al., 2015). A similar situation was found in the case of ecological knowledge. Positive correlation with environmentally conscious purchase behavior is confirmed by majority of studies (Chan, 2001, do Paço et al., 2008; Aertsens et al., 2011; Lee, 2011; Saleki et al., 2012; Eze, Ndubisi, 2013; Vicente-Molina et al.; 2013; Zhua et al., 2013; Marques, Almeida, 2013; Kozar, Connell, 2014; Hidalgo-Baz et al., 2017;). Review of studies that have examined the physiological factors and their results is shown in Table 2.

Economic. Economic factors have not been present in many papers. However, based on reported results, some important information have arisen. Lee et al. (2017) confirmed that GDP is positively correlated with environmentally conscious consumer behavior. According to several studies, the high price of green products is negatively correlated with green purchase behavior (Lea, Worsley, 2008; Cerjak et al., 2010; Aertsens et al., 2011; Saleki et al., 2012; Eze, Ndubisi, 2013). Also, there is evidence that income is positively correlated with environmentally conscious consumer behavior (do Paço et al., 2008; Zhua et al., 2013; McCarthy et al., 2015). Furthermore, the unfavorable retail environment has been negatively correlated with green purchase behavior (Connell, 2010; Lee, 2011). Review of the reported results on the impact of economics factors on environmentally conscious purchase behavior from analyzed papers is presented in Table 2.

Table2: Reported results on impact of demographical, psychological and economic factors on environmentally conscious purchase behavior (compiled by authors)

Independent variable	Study no. (correlation)	No of studies
Demographic factors		
Gender*	3(ns); 4(+);12(ns); 36(+);37(+)	5
Marital status**	4(+)	1
Age	3(ns); ;4(-);12(+);40(-);37(+)	5
No. of children	4(-);12(ns); 37(+)	3
Education	4(ns);12(+);37(+);40(+)	4
Psychological factors		
Product-related experiences	14 (+)	1
Attitudes toward green purchases	1(+);2(+);7(+);14(ns);20(+);22(+);25(+) 26(+); 32(+);35(+);36(+)	11
Altruism	23(+);27(+);28(+)	3
Skepticism	11(-);19(-);30(-);33(-)	4
Personal characteristics (eg. hedonism)	8(+);9(+)	2
Subjective norm	7(+);14(ns); 35(+);41(ns)	4
Environmental concern/values	5(+);6(+);11(+);14(ns);18(+);19(+);22(ns); 24(+); 25(+); 26(+); 27(+); 29(+);33(+);35(+);36(+); 38(+);41(+)	17
Perceived consumer effectiveness	5(+);6(+);11(+);14(ns); 18(+); 19(+);23(+); 28(+);30(+);31(+);33(+);38(+);	12
Past orientation	40(-)	1
Health consciousness	14(ns);15(+);37(+);40(-);41(ns);	5
Ecological affect	1(+);32(+)	2
Ecological knowledge	1(+);11(+); 14(ns);15(+);16(+);22(+);24(+); 25(+); 28(+);29(+); 30(+);41(+)	12
Ecological friendly behavior	3(+);5(+);11(+);24(ns);31(+)	5
Willingness to pay	31(+);32(+);34(-);35(+);37(-)	5
Trust in eco label/brand	17(+)	1
Personal norm/values	24(+)	1
Self-image	27(+)	1
Self-enhancement	18(+)	1
Environmental activities attitude	2(+);5(+)	2
Green purchase intention	3(+);20(+);14(+);23(+)	4
Economic factors		
GDP	40(+)	1
Price	12(-);22(-);9(-);15(-);24(-)	5
Income	29(+);37(+);11(+)	3
Unfavorable retail environment	13(-);16(-)	2

Remarks:*women;**married; ns-not significant; + positive correlation; - negative correlation

4.3. Sociological, situational and other factors

Sociological. Diamantopoulos et al. (2003) concluded that belonging to a particular social class has no influence on the purchase of environmentally friendly products. There is an indication that the environmentally conscious consumer behavior is supported in those societies where adopted social values are consistent with ecological values (Connell, 2010; Aertsens et al., 2011; Lee, 2011; González et al., 2011). Also, this refers to societies in which man-nature orientation (Chan, 2001) and collectivism (Chan, 2001; Kim, Choi, 2005; Krystallis, 2008; Kim, 2011; Handique, 2014) is predominant.

Also, the influence of reference groups and influential people should not be neglected because positive correlation with purchase behavior is confirmed (Lee, 2011; Eze, Ndubisi, 2013; Tsarenko et al., 2013; Anvar, Venter, 2014). Papers that examined the influence of sociological factors are presented in Table 3.

Table3: Reported results on impact of sociological, situational and other factors on environmentally conscious purchase behavior (compiled by authors)

Independent variable	Study no. (correlation)	No of studies
Sociological factors		
Social class	4(ns)	1
Social values	13(-);15(+);16(-);38(+)	4
Collectivism	1(+);6(+);8(+);33(+);18(+)	5
Man-nature orientation	1(+)	1
Reference groups and influential people	32(+);16(+);24(+);27(+)	4
Situational factors		
Lack of information	13(-)	1
Retail appearance	13(-)	1
Limited availability	10(-);13(-);15(-)	3
Availability	9(+);12(+);37(+)	3
Other factors		
Quality	10(+);14(ns);15(+);	3
Green/Eco label	14(ns);17(ns);21(+);37(+);39(+)	5
Green/Eco brand	17(+);39(+)	2
Advertisement/Promotion	17(ns);29(+);34(+);39(+)	4

Remarks: ns-not significant; + positive correlation; - negative correlation

Situational. Reported results on situational factors in papers that have been reviewed indicates that they should not be neglected. Connell (2010) found that lack of information as well as retail appearance bothers green consumers (negatively correlated). Availability of green products is positively correlated (Lea, Worsley, 2008; Cerjak et al., 2010; McCarthy et al., 2015) while limited availability is negatively correlated (Tsakiridou et al., 2008; Connell, 2010; Aertsens et al., 2011) with environmentally conscious purchase behavior. Overview of the results is presented in Table 3.

Other. In addition to the previously listed independent variables, scholars also examined some others, but we will focus our attention to those which appeared in several papers and could not be clearly classified in previous groups. Hence, they are listed as other factors. The quality of product or service confirmed to be positively correlated with green purchase behavior (Tsakiridou et al., 2010; Aertsens et al., 2011). Paladino and Smith (2010) and Rahbar and Wahid (2011) found that there is no significant correlation between environmentally friendly products labeling and purchase behavior, while others (Vega-Zamora et al., 2012; McCarthy et al., 2015; Nehanahajan, 2016) reported positive correlation. Rahbar and Wahid (2011) and Nehanahajan (2016) found a positive correlation between green brand and environmentally conscious consumer behavior. Advertisement and promotion also affect behavior – positive correlation is confirmed by Zhua et al. (2013), Sen (2014) and Nehanahajan (2016).

5. LIMITATION AND FURTHER STUDIES

There are few limitations that must be taken into account when we consider the findings presented here. The first relates to the used method. It must be noted that there is a probability that there are papers on this topic within the selected time frame which have not been taken into

account because of the combination of used keywords and database. The next limitation refers to independent variables that are reviewed. In the presented papers, they were examined and reported in different formulations, ways and methods. In this review, they are grouped together and presented to give a clear view on their impact on environmentally conscious consumer behavior. In addition, it was noticed that majority of studies examined only two or three group of factors, with only several factors in each group. In other words, there was no extensive and thorough research among the reviewed papers. This implies the need for extensive research that will take into account all groups of factors. Finally, each study is based on a specific sample, which needs to be considered before any generalization is made.

6. CONCLUSION

Findings presented in this paper indicate that, during the observed period, scholars had been mostly interested in psychological factors and their correlation with ecologically conscious consumer behavior. There is confirmation that consumers who are environmentally conscious also have positive environmental attitudes, high perceived level of knowledge about environmental issues and an attitude that they as individuals may affect resolving of environmental problems through consumption. Regarding the demographic factors, except for the level of education, the results are not unique. Similar to conventional products, increase in revenues and GDP has a positive effect on the consumption of green products, while the rise in prices affects it the opposite way. Social context is important, and if it supports the care about the environment and other people, consumers will be more inclined to purchase green products. The influence of reference groups and important persons can be significant when it comes to purchasing environmentally friendly products. In addition to previous, it should not be omitted that environmentally conscious consumers are also affected by the situation: where and how they are buying, availability of products, characteristics of the products, their labeling, promotion, etc. This paper introduced literature review as well as independent variables which are correlated with environmentally conscious purchase behavior. Obtained results can be used to encourage green consumption by scholars, policy makers, marketers, managers.

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STRATEGIES OF CHINESE COMPANIES WHEN ENTERING GLOBAL MARKETS

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ABSTRACT

Almost forty years ago, the Chinese economy slowly but steadily started to open itself to investments of foreign companies. It was a long process, in which both foreign managers and Chinese businessmen learned a lot. Since the establishment of the People's Republic of China in 1949 until 1978, there was no presence of foreign companies and investments at the Chinese market. During this period, China was focused on domestic development with domestic resources along with the state planned economy. So it was difficult to completely change the way of functioning of the Chinese economy and to have a successful cooperation with foreign companies and investors, when China opened its market to foreign investments. Since the opening of Chinese market, foreign companies used the only possible way to enter this market and that was joint venture. After Chinese Government pulled out this restriction for operating on its market, international companies used many different strategies to operate in China. Then, ten years ago, a reverse process began, in which now strong Chinese companies started to enter different international markets. Chinese companies are increasingly becoming important international business competitors, having enterprises or subsidiaries in countries such as the United States of America, United Kingdom, Germany, France, Sweden etc. In their process of growing and going abroad, the Chinese companies are using different strategies for doing their business - such as mergers, acquisitions, joint ventures or, if possible, direct investments. The aim of this paper is to show how Chinese companies from different business fields first succeeded in China and after that to reveal what type of strategies they were using when entering global markets.

It will be shown that, besides direct export, which was the most important strategy of Chinese companies in former times, they are changing their approach and nowadays they are becoming more versatile in doing their business abroad.

Keywords: *China, companies, global market, strategies*

1. INTRODUCTION

Today, many scientists, businesspeople or analysts write or say that the conditions of running business at the international markets are very difficult and challenging. They say that although there are a lot of opportunities that can be used to succeed, there are also many threats that can cause significant problems for operating business. If we want to be truthful, there wasn't time in human history when it was easy to run any kind of business, never the less if it was a domestic or international one. We can only say that each period of time has different problems and risks and that international business was and still is a challenge for those who run their business in that way. There are many different strategies that companies can use when entering international market. Each strategy has its good and bad sides, so leaders of a company are choosing those strategies which they consider as the right ones for their company. In doing so, they need to look upon their business, situation at domestic and international market. Of course, for each one of them the main reason for going abroad is maximizing the profit. So in order to

be successful, good planning and research are essential. In this paper, the authors will present the theoretical background of international strategies and explain when those strategies are adequate for a certain company. After that, the history of opening Chinese market to the foreigners will be explained and also the present circumstances when the reverse process started – the process of Chinese companies going abroad. The aim is to show that the conditions at Chinese market have dramatically changed and nowadays highly competitive Chinese companies are becoming very important international competitors. It will be shown what strategies they are using when entering international markets along with many examples, including a case study about a company that successfully used many different strategies for becoming important international competitor – Lenovo.

2. STRATEGIES FOR ENTERING INTERNATIONAL MARKET – THEORETICAL BACKGROUND

The process of internationalization of business activities within a company begins with international trade operations, i.e. the process of exporting goods and/or services. Only later the company decides on the opening of representative offices and cooperation with foreign enterprises. After that, as a logical solution direct investments abroad are imposed as to help the company expand its business activity. For any company, it is easier to manage activities that are only related to international trade, than activities related to the foreign investment enterprise.

In the process of internationalization the companies go through two stages. During the first phase, company's engagement is reflected in the sales of products or services through an intermediary who already has an elaborate network in a particular market; or the company creates a small sales department in consultation with the foreign distributor. At this stage the company is primarily trying to go to markets with modest entry barriers. The next step is to open foreign branches. In the second phase of internationalization, changes to the performance of business activities are performed in the country, which is defined as a strategically important target market. The very beginning relates to certain marketing activities in order to be subsequently transferred to local production, and at a later stage, depending on the ambition of the company and its economic activity to a local RD activity. Diversity of foreign relative to the domestic environment is viewed and respected (Milisavljević, 2007, p. 421)

In this paper, special attention will be paid to the external growth strategy, for which the companies decide on entering into new business areas such as: merger, acquisition, a joint venture, strategic alliances and foreign direct investment.

Merger is a transaction within which an exchange of shares of two or more companies occurs, while only one company survives. Most commonly a merger is performed among the same size companies and the whole process is done in a friendly manner, i.e. all doings are made in agreement between the management of companies involved. Most often the newly formed company is named by combining the names of companies that have merged together.

The *acquisition* strategy relates to the purchase of a company that is being integrated and as such becomes a part, i.e. a unit of a company that initiated the purchase. The acquisition process takes place between the companies that are different in size and can be hostile and friendly. The first case is quite similar to the merger, as it unfolds as a process of negotiation and cooperation between the company heads and on the basis of their mutual agreement the merger begins. A hostile merger or takeover refers to a situation when the company making the coupling constantly buys other company shares and ignores the requirements of their management team until it obtains a majority share which gives them independence in the management and decision-making. The downside of the latter is in weakening of business performance of the company that has been taken over and creating negative relationship between the company that has been taken over and the company that started the process.

Strategies with mergers and acquisitions are numerous, but most often horizontal, concentric, vertical and conglomerate M&A are in place. Horizontal merger includes companies that are direct competitors in the market. Concentric merger involves a combination of two or more enterprises whose production programs are similar in technology, but also in terms of distribution and the target market in which they operate. Vertical merger combines two or more enterprises where the emphasis is on the expansion of activities of an enterprise. The process is done in two ways, either backwards towards strengthening raw material base and intermediate or by advancing to the wholesale and the promotion and strengthening of existing distribution channels. In case of the conglomerate strategy, a merger is done between companies whose production and utilities are significantly different from one another. It should be noted that the greatest danger of mergers and acquisitions in this case lies in the fact that it is very difficult to integrate two completely different systems. The difficulties usually refer to intercultural differences, language barriers, different organizational culture, high merger costs, the time necessary for the consolidation and re-start, inadequate preparations and incompetence for the merger process.

Joint venture is a strategy during which a temporary partnership or consortium for the common purpose is formed. Within these types of strategies a new legal entity is formed, that is jointly owned by two or more existing companies. The most common reasons for joint ventures are: the development of new technologies, entering into new markets, utilization of partners' scale economies, reducing the levels of risk and the like. This type of strategy is often used by multinational companies in order to enter the unknown foreign market through a joint venture with local companies. In contrast to mergers and acquisitions, joint venture does not involve huge expenses and is a quite flexible way to grow a business enterprise. The greatest difficulty of this strategy is reflected in incompliance of the partners involved, especially when it comes to equality of property. In this regard, the choice of partners in the joint venture is of crucial importance. (Milisavljević, 2007, p. 285)

When we talk about *strategic alliances*, we deal with a partnership arrangement of two or more firms that remain independent, but are linked by common objectives in the new business venture (Schermerhorn, 2008, p. 112). Each member of the alliance has special competences shared with others, but also the responsibility to the risk, and the obligations and control of business processes themselves. The emphasis is on continuous improvement of the strategic areas that are crucial for their competitiveness in the market. The most common reasons for the formation of strategic alliances are: cost reduction, possibility of going to additional markets, the use and acquisition of new technologies, exchange of knowledge particularly in research and development projects and the like. Time limit for strategic alliances as a rule does not exist. The biggest drawback of this kind of cooperation is inadequate choice of partners within the alliance itself, as well as incompliance in the management of this alliance itself after its formation. (Barney & Hesterly, 2006, p. 278)

Foreign direct investment (FDI) is a capital investment in a foreign country in anticipation of a certain return on the invested capital. OECD defines them as: "Foreign direct investments are aimed at establishing a lasting interest in a company that belongs to one economy (direct investor) through investment in a company that is a member of another economy (a company in which it is directly invested), other than those to which it belongs direct investor" (OECD, 2008). These investments can be seen in many forms such as: public investment by the state, private investments by certain individuals and groups, and investment companies. A distinction is made between portfolio investments relating to the purchase of various securities (mostly shares) of other companies, and direct investments. It should be noted that in the portfolio investment value of shares to be purchased does not exceed 10% thereby reducing the degree of risk. Unlike portfolio investment, the FDI requires involvement of management in the invested enterprises. In this way, the control of the business is strengthened and makes it easier

to enter a new market. There are two basic types of FDI which are: Greenfield and Brownfield investments. The main characteristic of a Greenfield investment is to build completely new capacities, establishment of new branches in the foreign market, which includes companies in its integrated strategy. Starting from the purchase of land on which units are to be built, without supporting infrastructure and a construction of a new factory and/or a plant, business units or branches is carried out. In addition to the above, for a direct investment abroad to gain characteristics of a Greenfield investment, it is necessary to provide new jobs and to enrich the range of products and services in a foreign country. Brownfield investments are characterized by investment in the purchase of land with existing supporting facilities, in a location with a secured infrastructure (Rakita, 2006. p. 337-340).

3. LEARNING FROM FOREIGNERS (COMPANIES) – CHINESE HISTORIC PERSPECTIVE

During its long lasting and rich history China was always a country that was oriented towards itself and its people. The foreigners were coming to China and most of the time they transferred Chinese inventions to Western world, mainly Europe. However, during time, China once known as a great and strong empire slowly started to weaken. The country was threatened by domestic frights, but also through conflicts with neighbours and some European countries.

The first serious conflict which showed that China is not any more such a powerful empire was the Opium War. That was a war between the United Kingdom and China and it lasted from 1839 until 1842. The war started because China has forbidden the import of opium from UK. At that time, the UK exported some 1.4 million kilograms of opium per year to China. The reason why China started to import opium was actually because of UK lack to export something competitive to China. China exported to UK very expansive goods such as silk, tea and porcelain, while UK exported silver. The problem was that silver was too expansive to export for British, and they did not earn as much as they wanted. So in order to change that situation they choose to export something cheaper and that was opium. Opium was very cheap because UK exported opium from India through famous British East India Company, and for that company it was very easy and convenient to transport opium to China. Unfortunately, Chinese Government did not know at that time what opium was and to what kind of effects the consuming of opium is leading. Once the Government realized the consequences of using the opium, it immediately banned the import of opium to China. That consequently led to military actions and the war started, in which China has lost.

After the ending of war in 1842 China was forced to sign a peace treaty in Nanking that was obviously not good. Because of this treaty, the British gained extraterritorial status in China, China gave up Hong Kong to UK, treaty ports such as Shanghai, Guangzhou, Ningbo, Fuzhou and Xiamen were now open for all traders from around the world and besides that the Chinese Government agreed to pay for destroyed opium and war retribution.

At that time it was clear to the Chinese Government that China was not so strong any more, and that it was staying behind the developed countries in the field of innovations and technology, especially regarding weapons. This was the reason why at the same time in China its intellectual elite started to state that China needs to open to the West and start to "learn from Barbarians". This kind of thinking gained a lot of attention in China especially during first 20 years of XX century, when a lot of Chinese students gained the opportunity to study abroad, mainly in Japan. While studying there, they gained knowledge about technology and modern economy, and they brought this knowledge to China.

But the next 30 years in China were full of turnovers that did not allow for this school "learning from the foreigners" to develop – in 1911 the Republic of China was established, in 1912 the Emperor abolished, the communist revolution started, and finally in 1949 Peoples Republic of China was founded.

In a way, this movement – learning from foreigners, continued to exist even during the first decade of Mao Zedong's governance. During that time, China had excellent relations with the Soviet Union, so they have sent their professors and engineers to China, in order to help them to better develop the communist regime. However, the conflict between SSSR and China escalated during the sixties, so China was once again alone in its development. The results of this policy were very bad and only after China started to open to foreigners in the eighties the situation changed. This infusion on foreign knowledge and capital was controlled by state Government and the process started slowly. The idea was to open four "special economic zones" (SEZ), to gain foreign knowledge, know-how and capital, and to develop China steadily but slowly. This policy was called "Open Door Policy".

In introducing this strategy China went as already stated slowly. The whole process was divided into four phases (Babić, 2007, p. 412-414). *First phase* lasted from 1978 until 1986. During that phase China opened east (southeast) coast of the country to foreign investments. There were two reasons for choosing this region: a) millions of Chinese people settled in Taiwan and Hong Kong after the communist victory. Those people that gained a lot of wealth in the meantime were actually from this part of the China, to be more precise from provinces Guangdong and Fujian; b) those regions were near Hong Kong that had enough capital to hire a new working force in those provinces. In this phase there were restrictions regarding the type of enterprises that foreign companies could open in China. The only type of company that was allowed to establish was a company with mixed type of ownership – Chinese and foreign. So, different types of joint ventures were the dominant way of establishing foreign companies on the Chinese territory at that time. The *second phase* was conducted from 1986 until 1992. During this time China liberalized law procedures and lessened business restrictions, so it was possible for foreign companies to establish a company that was completely in their ownership; it was also allowed to use currency change for profit (from RNB to some foreign currencies); as well as to take some profit out of China.¹ *Third phase* of Open Door Policy started in 1992 and it lasted until 2001. This stage of Chinese development can be described as a stage of creating China as a merchant super power. During this stage Chinese foreign trade deficit that was 12.2 billion US\$, was transformed into foreign trade surplus of 5.4 billion US\$. (Babić, 2007, p. 413) Also, there was a strong inflow of foreign direct investments coming from Taiwan, Hong Kong and Macao. (Kovač, 2006, p. 42) Despite much liberalization, the Chinese Government still planned the development of foreign companies. They carefully choose in which field and under what conditions foreign companies can be established and Government also choose to give licences to operate on its market to those companies that were good for their own development strategy. This phase also contributed to developing strong international competition at Chinese market, but at the same time it also helped to develop competition between Chinese provinces that were now competing with each other in order to gain more foreign investments. *Fourth phase* was mainly dedicated to Chinese entering the World Trade Organization (WTO), and that finally happened in 2001 in Doha. In order to be accepted as a member of WTO, China had to fulfil many strict measures that were more severe than for some other members of WTO.

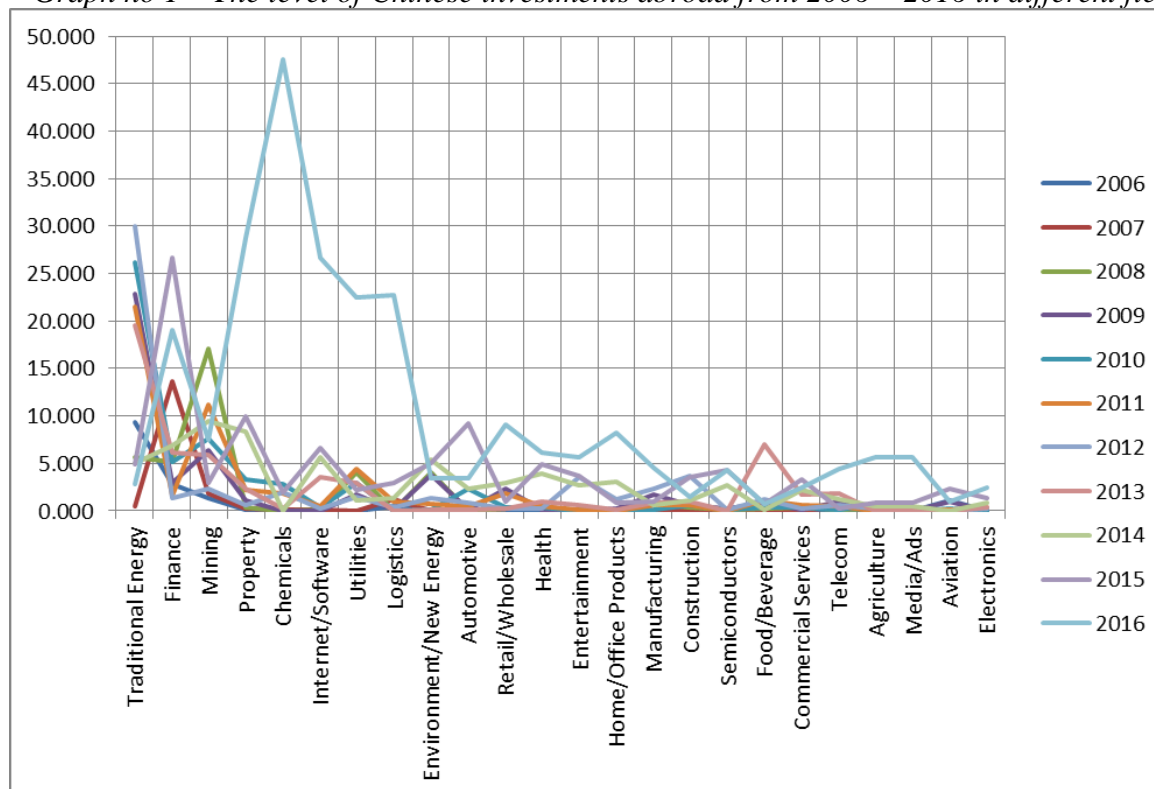
Open Door Policy helped formation of the new businessmen and entrepreneurs in China that were stipulated by the conditions that Chinese Government made. Many in those days small family companies are nowadays big international companies. During this time Chinese people learned a lot from foreigner investors, and we can say that the school of thought "learning from the foreigners" had very good results.

¹ This period of time was called "twenty two regulations".

4. CHINA GOES GLOBAL – COMPANIES THAT SUCCEEDED AT THE INTERNATIONAL MARKET

Chinese companies have experienced boom in the last ten to fifteen years on the international markets. It is enough to mention that at the prestigious *Fortune 500* list their number is constantly growing from year to year, and now there are over 100 Chinese companies on the list. Investments of large Chinese companies often exceed the GDP of smaller countries, and they are present in almost every industry and in all parts of the world. What kind of force we are dealing with testifies the graph number 1 presenting the volume of investment of Chinese investors in the period from 2006 to 2016. Data were taken from the Bloomberg's website, and according to their data, we can see the further growth of Chinese investments abroad. What we can also see, is that Chinese companies initially invested in traditional sectors of the economy (processing of raw materials, mining, utilities, traditional forms of energy) and today they are much more investing in newer forms of economy (the famous brands, entertainment, IT sector, health, finance, electronics, etc.). It should be noted that at the beginning of these overseas investments, the leaders were state Chinese companies, but today that role took private Chinese companies. The record in foreign mergers and acquisition process Chinese companies had in the previous year (2016), according to Bloomberg (graph no 2). At the same time it can be seen that in relation to 2015 the value of total overseas investments was more than doubled, which testifies that the Chinese companies seriously started investing overseas, and that their strategy to grow the business at this time was more focused on foreign than on the domestic market. In terms of geographical distribution by volume of the invested capital abroad, North America and Western Europe are leading, Asia Pacific region follows them, then goes Latin America and the Caribbean, then the Middle East and Africa and at the end of the list is the Eastern Europe. Besides the overall presentation of Chinese investments abroad, examples of individual companies are given, to see what are the individual forms of acquisitions, mergers and strategic alliances that Chinese companies have had on foreign markets.

Graph no 1 – The level of Chinese investments abroad from 2006 – 2016 in different fields



Source: <https://www.bloomberg.com/graphics/2016-china-deals>

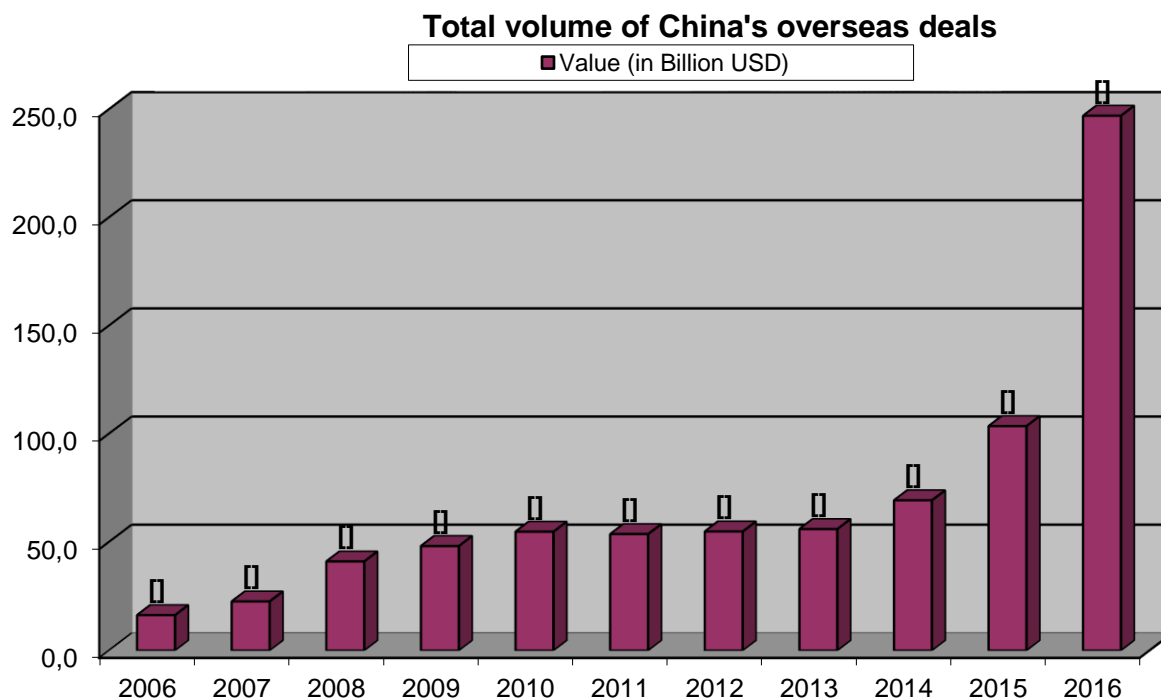
Dalian Wanda Group – a Chinese conglomerate reached the spotlight in 2012. when they bought for 2.6 billion US dollars the second largest cinema chain in the United States AMC Entertainment Holdings. The latest example of the acquisition of Wanda Group is a purchasing of Legendary Entertainment Hollywood production company an American giant in the entertainment industry; value of this acquisition was 3.5 billion US dollars.

Tianjin Tianhai which is part of the **HNA Group**, whose main activity is concentrated in the fields of logistics, tourism and transport has bought a large American IT company Ingram Micro for 6.07 billion dollars, and in that way expanded their activities into the sector of information technology. The purchase was completed in December, 2016. However, it should be noted that the HNA Group is one of the largest and the most active investment groups in China and that they, just in the last two years, spent over 15 billion US dollars on investment projects around the globe. An investment that might stand out the most, and which had considerable resonance in the business world was buying a 25% stake in Hilton Group, well-known name in the hotel industry. The transaction was completed in January 2017, and the value was estimated at 6.5 billion US dollars.

(<https://www.forbes.com/sites/ellensheng/2016/12/21/5-biggest-chinese-investments-in-us-2016>).

Anbang Insurance Group – is a Chinese insurance company that is well known for its acquisitions in the field of insurance around the world, but what is very interesting is the fact that this group invested a lot of their funds in the last three years in the purchase of hotel business (<http://en.anbanggroup.com/jtjs/index.htm>). The latest and perhaps the most interesting example is the purchasing of an American hotel giant - Strategic Hotels & Resorts which consists of many hotels and resorts at prestigious locations. The acquisition was performed in September 2016, and its value was 6.5 billion US dollars.

Graph number 2 – Total volume of Chinese overseas deals, in billions of US\$



Source: <https://www.bloomberg.com/graphics/2016-china-deals/>

Shuanghui International - is a part of WH group that is the largest meat processor in China; they purchased Smithfield Foods for 7 billion USD in 2013, and in that way they became a world leader in the production and processing of pork meat. (<http://www.wh-group.com/en/about/milestones.php>). It is interesting that this, so far, is the only investment in this field by a Chinese investor. WH Group is usually known for some European acquisitions where in the past decade they bought several factories in Germany, Belgium and the Netherlands, but the amount of those investments is not even close to this in America when they purchased Smithfield Food.

ChemChina - is a Chinese national chemical corporation which consists of over 100 companies engaged in agrochemicals, production of chemical instruments and processes of oil and petroleum products. (<https://www.bloomberg.com/news/articles/2016-02-03/chemchina-offers-to-purchase-syngenta-for-record-43-billion>). Through the history, and especially in the last 10 years, it is well known as one of the leading investors in the mentioned areas. Through its global strategy of expanding its operations worldwide, it is nowadays present on all continents. However, an acquisition that recently happened - buying the Swiss company Syngenta AG which is one of the world leaders in the production of pesticides and other chemicals used in farming, brought ChemChina into eyes of the global public. The value of this acquisition is a staggering 43 billion US dollars, which represents a record when we talk about Chinese investments in foreign countries.

Tencent Holdings Ltd. - Chinese giant in the gaming industry, internet business and social media has bought 84% of shares of the Finnish company Supercell, which is currently one of the leading companies when we talk about the gaming industry and the development of applications for mobile phones. (<https://www.tencent.com/en-us/investor.html>). The value of this acquisition was 8.6 billion US dollars and it was conducted in early May, 2016. The last one of its many strategic partnerships is the partnership with Starbucks.

The strategic alliance between Chinese Tencent Group and French PR and marketing giant Publicis Group is just one of many examples how Chinese companies are expanding their operations into foreign markets. One of the basic ideas of this partnership is the establishment of business incubators that will allow the development of new technologies and platforms such as AR and VR reality. Through strategic coherence Tencent group will cede its partner network information to improve the use of online systems and to improve the program scheme, while the Publicis group will work on improving Tencent Group marketing, as well as their presentation to the European audience. (<https://which-50.com/publicis-tencent-ink-global-strategic-alliance/>).

Huawei - a well-known name in the world of mobile phones often performs acquisitions around the world and constantly expands its business. The latest example is the purchase of HexaTier Israeli IT company that specializes in security solutions in internet business. The acquisition was completed in December 2016, and value of this acquisition was 42 million US dollars. (<https://www.sdxcentral.com/articles/news/report-huawei-acquires-security-startup-hexatier/2016/12/>).

Fosun - Chinese investment company well known in the world of insurance and stock exchange operations, acquired in 2014 the American insurance company Ironshore Inc. for 2.3 billion US dollars, but just two years later they arranged the sale of the same company to Liberty Mutual for nearly 3 billion US dollars, which is not often the case among Chinese investors, especially in the USA.

(<http://www.insurancejournal.com/news/national/2016/12/05/433967.htm>).

China Wanxiang Group - operates in the automotive industry and deals mainly with the production of spare parts. (<https://www.forbes.com/sites/joelbackaler/2015/01/14/10-chinese-companies-going-global-in-2015>). It is well known for its acquisitions in the North America where it operates for more than 15 years and during that time they bought more than 20

companies. The latest example is the purchase of Fisker Automotive Group which is engaged in the production of hybrid cars and located in the 10 largest producers of this type of cars in the United States.

JAC Motors - joint venture between Chinese car manufacturers JAC Motors and Mexican Giant Motors, which is owned by one of the richest people in the world Carlos Slim. It is a good example of how with the help of a foreign partner it is possible to win on a new market. The idea of this partnership was to open a new factory in Mexico and to produce Chinese SUV cars with affordable price for the Latin American market. Although China is the largest car market in the world, manufacturers from Western Europe are still more superior than Chinese manufacturers and this joint cooperation will enable the Chinese company to expand their business into new markets. The value of this joint venture project is about 230 million US dollars. (<https://www.forbes.com/sites/doliaestevez/2017/03/28/billionaire-carlos-slim-and-chinas-jac-motors-to-manufacture-cars-for-latin-american-market/>).

Guangzhou Trinity Cycle - through a joint venture with a partner from India, this company began with the export of bicycles, bicycle parts and equipment on the Indian market. The primary idea of this project was based on the new changes of the tax system, in which the Government of India gave large tax benefits to all vehicles that do not emit harmful gases and almost twice reduced the tariff margin for this type of goods. After China, India is the market with the greatest need for this type of products, so in the first year the expected sales amounted to 800 thousand pieces with tendency of growth to over a million in the next three years. (<http://www.bike-eu.com/home/nieuws/2017/3/chinese-bike-producer-trinity-forms-joint-venture-in-india>).

Based on these examples, we can realize the power, but also the importance of the Chinese economy in the global business. Chinese investments in the world have been constantly growing, developing in all business areas and have an increasing impact on the global economy. In the last 10 years, this figure exceeds a staggering 760 billion US dollars. China is slowly but surely becoming the world's largest investor, but also the strongest economy in the world.

5. LENOVO²

Lenovo Group Ltd. is a Chinese multinational company founded in 1984 in Beijing under the original name Legend. It was founded by 10 engineers who worked at the China Institute of Technology with a modest initial capital of 25 thousand US dollars. In the beginning, Lenovo started with the import of TV equipment to the People's Republic of China, but their work quickly failed. However, they saw a new chance in controlling the quality of computer equipment and advising new customers on the domestic market. Shortly after that, Lenovo started with the development of a circuit board that would allow IBM-compatible personal computers to process Chinese characters. This product was the first major success of Lenovo and allowed them to enter the IT industry, which in the mid-eighties was in large expansion, mainly thanks to American companies such as Apple and IBM. In those years Lenovo also tried to enter the world of digital watches, but they did not accomplish any significant success in that industry. The company didn't make significant progress until the beginning of 1990, when Lenovo first independently entered the PC market. In the next few years the company started to build its name on the Chinese market, and they also started with the development of China's first personal computer named Tianxi.

² Note: for this part of paper several sources were used: <http://www3.lenovo.com/au/en/lenovo/company-history/>, revised: 08.04.2017.; <http://www3.lenovo.com/au/en/lenovo/our-company/>, revised: 08.04.2017. ; <http://beta.fortune.com/global500/lenovo-group-202>, revised: 08.04.2017.; <https://www.forbes.com/sites/jnylander/2016/03/20/how-lenovo-became-the-largest-pc-maker-in-the-world/>, revised: 04.04. 2017.

The product was launched in 1998 and in the first year recorded sale was over a million units. In that year, Lenovo became the market leader in China. The start of a new millennium brought new successes to the company, when it slowly but surely became the market leader in the Asia Pacific region, but also a globally recognizable brand. The main turning point happened in 2003, when the company's management rejected the old name Legend and decided to go out on the international market under the new name Lenovo. In the same year, with their first super computer DeepComp 1800 the company achieved their first success on the world level, becoming the first Chinese company in the field of IT industry that recorded a 2.1% share of the global market.

Lenovo's first acquisition was in 2005, when they bought IBM notebook and tablet computer segment for 1.75 billion US dollars. This acquisition brought a lot of innovation in the business of the company. First of all, they acquired the already developed and recognizable brand ThinkPad, which at that time was one of the best trademarks in the sector of personal computers. In addition, they got the possibility of entering the previously unreachable markets with very high entry barriers, to develop the distribution network, but most importantly they got a lot of advanced technology that had a major impact on the growth and development of the company in the next few years. This acquisition of IBM's segment also brought to Lenovo a big jump in the global PC industry. After this event, the company was included in the prestigious Forbes list, as the fastest growing company in the world. The following years brought new successes to the company, which became the third largest company in the world in the segment of manufacturing and selling of personal computers. They are constantly spreading their business, and their global market share gets bigger and bigger every year. In 2009, they entered the mobile phones' market, where they significantly increased their business in the next two years. Just one year before, the top management of the company decided that it was in the best interest for the company to stay focused on the PC market.

In 2011, Lenovo started their first joint-venture project in cooperation with the Japanese company NEC. The idea of this project was to expand the global network and global presence, but also with the help of the Japanese partner to expand their presence in Japan, at the time the key market in the PC industry. During that time, NEC covered around 20% of the Japanese market, while Lenovo had a share of only 5%, and the main idea was to expand business into the market of server equipment and the growing tablet computers market. In the same year 2011, Lenovo acquired Medion in Germany and for the first time they expanded their business to the European continent. With this acquisition, Lenovo received about 14% of the German market, which put them on the third place in global PC market just behind world giants such as Acer and Hewlett Packard.

The company continued their world expansion in 2012, when they bought the Brazilian leader in electrical components, a company called CCE electric. The value of this acquisition amounted to slightly more than 150 million US dollars. Although at that point Lenovo already had a factory under construction in Brazil, the idea of this acquisition was based on the fact that Brazil was awaiting two big sport events in the next couple of years (the Football World Cup and the Summer Olympic Games). Lenovo anticipated that it was in their best interest to fix their own position with the local partner and to accelerate sales in that way.

In September 2012, for the first time in its history Lenovo acquired a software company Stoneware from the United States. The main goal of this acquisition was the expansion of Lenovo cloud system and continuous improvement of their internal network.

Their largest acquisition Lenovo has conducted in January 2014, when they bought from Google Motorola a segment of mobile phones and their line called Moto X and Moto G for 2.91 billion US dollars. This acquisition brought the company a large jump of its shares on the stock exchange market, because in this arrangement with Google in addition to the money Google also received the 5.94% Lenovo stake, while they got over 2,000 patents of Motorola and the

right to Droid Turbo software for smart phones. In the mobile phone segment Lenovo is one of the most recognizable brands that stands equal to the world's largest giants such as Samsung, Apple and Sony (<http://www.lenovo.com/lenovo/us/en/company-history.shtml>).

In its relatively short history, Lenovo has come a long way from a small entrepreneurial venture, to a major world giant in the PC and mobile phone industry. Today Lenovo is present in over 130 countries worldwide, has offices in 63 countries, employs over 60 thousand people and has an annual turnover of over 44 billion US dollars. At the prestigious Fortune 500 list, it occupies the 202 position, but from year to year they are improving this rating. One of the most interesting facts is that in the period from 2005 to 2016, Lenovo increased their global market share by almost 10 times. Nowadays, they are holding 21% of the global PC market and in the production of tablet computers they are the absolute world leader.

6. CONCLUSION

Judging by the above stated facts, it can be concluded that at the moment we are witnessing such expansion of Chinese companies abroad that was never seen before. The Chinese companies have changed the areas in which they are investing, and they are moving from traditional economy to new (modern) fields of economy. Also, the main destinations of Chinese investments changed from Asia and Africa, to USA and EU. It is interesting to see that such a strategy of Chinese companies came as a surprise on the international market, because China is usually considered as a destination where finances are put into. Obviously, the things have changed recently. The Chinese companies, especially the private ones and entrepreneurs, are accepting the fact that sometimes it is better to go abroad by acquiring foreign companies or merging with them, then to concentrate only on domestic market. Also, by working together with international companies, the Chinese companies are becoming a part of well established brands and they are becoming more internationally recognized. It will be very interesting to see in the upcoming years if this trend will last and in which market fields, but also in which regions, the Chinese companies will invest in the future. Regarding the strategies that are applied when going abroad, we can state that Chinese companies are using different strategies in different situations. By looking more carefully into many examples, and not just those that were analyzed in this paper, it can be concluded that acquisition is the strategy that prevails at the moment.

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ASSESSMENT OF SOCIAL ADVERTISING EFFICIENCY PRESENTED BY CELEBRITY ENDORSERS USING THE COMMUNICATION MODEL COMMAP

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ABSTRACT

The aim of presented research is to assess the efficiency of selected social advertising campaigns endorsed by popular Slovak celebrities. In order to determine likeability of particular campaigns, one endorsed by Lukáš Latinák (campaign „Blue butterfly“ supporting muscular dystrophy patients) and the second endorsed by Michaela Čobejová (campaign „Different country, different customs“ concerning international law protection of children and youth), we used the method of Communication Style Mapping – i.e. COMMAP model first presented by Eric DuPlessis. The perception of selected celebrity endorsers was measured by using semantic differential method. Research outcomes present the measure of social advertisement likeability within each dimension of the COMMAP model in relation to the perception of given celebrity endorsers by adolescent age group.

Keywords: *celebrity, COMMAP, efficiency, endorsement, social advertising*

1. INTRODUCTION

The main objective of presented study reported is to expand on the current literature by incorporating the neglected dimension of the celebrity endorsement process in the context of functioning of non-profit organizations. Within the theoretical framework we will explain celebrity endorsement effectiveness with the focus on dimensions of celebrity image and credibility from the viewpoint of the social advertisement likeability. Findings of this study provide the strategic insight for practitioners.

1.1. Celebrity endorsers and their effectiveness

Nowadays, celebrity endorsement is a widespread commercial strategy. Sometimes called celebrity ambassadors or celebrity spokespersons, celebrity endorsers are being used with greater frequency by charities and other types of nonprofit organizations (Samman et al. 2009; Wheeler 2011). A celebrity endorser is „any individual who enjoys public recognition and who uses this recognition on behalf of a consumer good by appearing with it in an advertisement” (McCracken, 1989, p. 310 In Thamaraiselvan et al., 2017, p. 3). But this marketing practice has spread also to the sphere of non-profit organizations and social causes being a subject of interest within cause-related marketing. Celebrity is a brand in a certain sense therefore a relationship between celebrity and nonprofit organization is in fact a reciprocal co-branding relationship. Both brand and celebrities have to be aware about who will they join forces with.

The positive effects of celebrity endorsers have been well established. Celebrities have a persuasive power and serve as models for identification (Fandelová et al., 2016). According to S.M. Choi and N.J. Rifon (2007, p. 307), „consumers are often observed to idolize celebrities and emulate their styles and behaviors. They might view some of the images or meanings the celebrities represent to be relevant to their ideal self-image and purchase brands endorsed by

the celebrities in hopes that they become similar to the celebrities by consuming these brands.” G. McCracken (1989 In Kelly et al., 2014, p. 59) adds that „*the power of celebrity endorsement is based on the accumulated meanings a celebrity has amassed outside of the endorsement*”.

It has been proven that using celebrity endorsers for consumer product advertising increases audience attention, ad recall, brand recognition, audience brand attitudes and purchase intention (Atkin and Block, 1983; Petty, et al., 1983; Chapman and Leask, 2001; Samman et al., 2009; Wann-Yih et al. 2012 In Wymer – Drollinger, 2015; Park, 2017) and that they make advertising more credible (Choi – Rifon, 2007). According to B. Z. Erdogan (1999) celebrity endorsers are more effective than non-celebrity endorsers in generating all desirable outcomes (attitudes towards advertising and endorsed brand, intentions to purchase, and in fact actual sales) when companies utilize celebrities whose public persona match with the products and target audiences and who have not endorsed products previously. Many scholars have attempted to construct models to aid in selecting celebrity endorsers. C. I. Hovland and his associates presented one of the earliest models in 1951. Following his initial Source Credibility Model, three additional models are often cited: the Source Attractiveness Model (McGuire 1985 In Erdogan, 1999), the Product Match-Up Hypothesis (Forkan 1980; Kamins 1989 In Erdogan, 1999) and the Meaning Transfer Model (McCracken 1989 In Erdogan, 1999).

Below, we present a condensed overview of celebrity endorser attributes increasing the effectiveness of the advertisement according to various authors:

- 1) **Expertise** (Wymer – Drollinger, 2015). R. Ohanian (1991) found that celebrities who are perceived to have expertise are more persuasive and generate higher purchase intentions.
- 2) **Trustworthiness** (Wymer – Drollinger, 2015). Expertise and trustworthiness influence the audience’s acceptance of the celebrity endorser’s message.
- 3) **Credibility** (going back to Source credibility model from Hovland and Weiss, 1951). When perceived credibility is high consumers are more likely to accept arguments presented in the ad, on the other side, low degree of credibility may lead to the rejection of presented arguments (Grewal et al. 1994 In Del Mar Garcia de los Salmones et al., 2013). Studies on celebrity endorser effectiveness suggest that a celebrity has a greater impact on attitude change and purchase intention than a non-celebrity through an established credible image based on recognition and popularity (Erdogan, 1999; Ohanian, 1991; Sternthal, Phillips and Dholakia, 1978 In Choi - Rifon, 2012). Literature identifies three components of celebrity spokesperson credibility: *expertise, trustworthiness, and attractiveness* (Lord and Putrevu, 2009; Ohanian, 1990 In Choi-Rifon, 2012).
- 4) **Admirability** (Wymer – Drollinger, 2015). Admirability is a construct literature pays quite a little attention in the context of celebrity endorsement.
- 5) **Likeability** (Wymer – Drollinger, 2015). Ad likeability is understood as an important determinant of advertising effectiveness. Smit et al. (2006) consider it to be a multidimensional construct (and in literature we can find many of its components), but sometimes ad likeability is understood in terms of an attitude to advertising (e.g. in work of Schiffman and Kanuk, 2004) forecasting brand attitude. Higher ad likeability encourages higher attention to advertising (Du Plessis, 2007), better recall of information and more processing of information in the advertisement (Smit et al., 2006). A person is less likely to avoid an ad she/he likes (Biel, 1990 In Rimoldi, 2008).
- 6) **Attractiveness** (Wymer – Drollinger, 2015). Attractiveness of an endorser is inciting psychological effects such as carryover effect, halo effect or affective response to an ad.

- 7) **Celebrity – brand fit** (or in case of non-profit organizations more likely **celebrity-cause fit**). In general, consumers anticipate a congruence between the brand and celebrity (Thamaraiselvan et al., 2017). S. Misra and S.E. Beatty (1990 In Park, 2017) state that celebrity-brand congruence (in line with product match-up hypothesis) enhances advertising effectiveness by increasing recall and transfer of affect from a spokesperson to a brand. B.D. Till, S.M. Stanley and R. Priluck (2008 In Park, 2017) go even further with their statement about celebrity-brand fit claiming that in cases when celebrities are well-paired with brands, consumers' brand attitudes are not only positively influenced, but become resistant to extinction. It is advised to choose celebrity endorser representing the same symbolic values as promoted product (or in our context a cause) (Byrne et al. 2003 In Del Mar Garcia de los Salmones et al., 2013).¹

This list of attributes is, unfortunately, not exhaustive. For example, S.M. Choi and N.J. Rifon (2007) presented genuineness, competence, excitement and sociability as traits defining consumer perception of celebrity image. Advertisers should carefully consider all attributes of a celebrity they wish to address as an endorser for their product or cause. However, we should not forget that the effectiveness of advertising is subjected to various individual factors (attitudes, motivation, attribution, sex etc.) or that there are gender interactions between endorsers and target audiences as mentioned for example in the paper from B.Z. Erdogan (1999).

1.2. Celebrity endorsement in social advertising

It is inadvisable for nonprofit managers to simply apply findings from consumer products research to the charity context (Sargeant et al. 2002 In Wymer – Drollinger, 2015) partly because the nature of the transaction differs from common product purchase. For example, when giving money to a non-profit organization, consumers do not receive tangible benefit. Moreover, in an Irish research of Samman et al. (2009) participants (n=100) were more likely to be influenced by perceptions of celebrities rather than their causes. This result points to the importance of celebrity endorsers, nonetheless it still needs to be replicated and/or examined in a greater detail.

In previous section we were talking about celebrity attributes increasing the effectiveness of the advertisement. One of these attributes was a fit between a celebrity and a product/cause. The research of Ilic-Baxter (2014) demonstrates that a functional fit between a celebrity and a charity positively impacts individual's attitude towards the celebrity and the charity, as well as heightens an individual's intention to donate to the aligned charity. These findings reinforce previous findings. Interestingly, findings also show that celebrity– charity functional misfit does not result in negative attitudes, but participants maintained more positive than neutral attitudes towards both the celebrity and the charity. In the work of Park (2017), celebrity's personal experience with the endorsed cause positively influences consumers' perceived congruence between the celebrity and the cause, attributions of the celebrity altruistic motives for the endorsement, perceptions of the celebrity credibility, and attitudes toward the celebrity and the nonprofit organization.

¹ The importance of congruence between a celebrity endorser and promoted product or cause has its roots in so called Schema Theory and Theory of Cognitive Consistency. When such fit is missing, consumers engage in more elaboration on the ad because they are trying to resolve perceived incoherencies or are trying to assimilate new information in the pre-existing schema (Lynn & Schuler 1994; Gwinner & Eaton 1999 In Del Mar Garcia de los Salmones et al., 2013). Inconsistency creates more or less conscious psychological tension therefore inconsistency may lead to negative feelings resulting in unfavorable attitudes (Becker-Olsen et al. 2006 In Del Mar Garcia de los Salmones et al., 2013) and/or poorer evaluation of company credibility (Webb & Mohr 1998 In Del Mar Garcia de los Salmones et al., 2013).

Moreover, a celebrity associated with an organization in a role of a founder compared to a spokesperson yielded more favorable perceptions of celebrity credibility and attitudes toward the celebrity and the organization. According to Wheeler (2002 In Park, 2017) celebrity endorsement is more effective when a celebrity is personally connected to a cause. In general, celebrity endorsers lead to more favorable attitudinal outcomes when people attribute altruistic motives to them (Park and Cho, 2010 In Kelly et al., 2014). These motives are strengthened by celebrity's genuine and believable commitment to the cause (also off-camera). Findings of a recent Park's study (2017) disclosed that when a celebrity is diagnosed with the disease the cause is based at, individual responses to the celebrity's endorsement are the most positive. When people attribute selfish intentions to celebrity endorsers they feel manipulated and there is a high probability of negative reactions.

In the context of non-profit organizations and the domain of cause-related marketing (CRM) what we really care about are donations or, when researching the impact of advertising, at least donation intentions. To the great sadness of advertisers, results are incoherent. In the work of W. Wymer and T. Drollinger (2015) predictors of audience donation intentions showed to be expertise and admirability, but celebrity endorser's perceived fit with the charity was not a significant mediator on audience donation intentions. S. Ranganathan and W. Henley (2007 In Del Mar Garcia de los Salmones et al., 2013) proved that a favourable attitude towards an advertisement has a positive influence on donation intention to charity.

2. RESEARCH CHARACTERISTIC

In general, not much research has been conducted to increase our knowledge of the relationship between celebrity attributes and celebrity charity endorser effectiveness. In order to reduce this gap in our knowledge, in presented research we are examining the perception of selected celebrity endorsers and attributes of social campaigns they were promoting with the aim to examine the relationship between perceived celebrity attributes and dimensions of Du Plessis's COMMAP in terms of ad likeability.

COMMAP is a model introduced by Eric Du Plessis (2007) trying to grasp performance or effectiveness of adverts through their liking. In terms of COMMAP model, likeability is created by high entertainment, empathy and/or relevant news. On the other side, it is negatively influenced by familiarity (in the sense of boredom), confusion, and/or alienation. Du Plessis's model includes one more factor Brand Reinforcement representing the attitude of respondents to the advertised company since people's reactions to a brand are influencing what they think about an ad (Faulkner – Kennedy, 2003).

According to our opinion, social advertising likeability is one of possible determinants leading to donation intention in favor of a respective social institution (we focused on resident's associations in Slovakia) As the celebrity image identification and scale development both deserve more research efforts, one of our research goals is to develop a more reliable and valid scale to tap into the celebrity image. We selected celebrities who have diverse images (the most and least recalled by Slovak adolescents from the pre-research by Džupina et al., 2016).

We focused on the main research question: *What is the relationship between **celebrity endorser's perceived attributes** (attractiveness, trustworthiness, expertise, genuineness, competence, excitement, sociability) and the audience's **likeability of selected social advertising**?* and additional questions:

What is the evaluation of selected celebrity figures?

What is the evaluation of selected social advertisements?

How do selected adverts perform within the COMMAP model?

We used the **method** of questionnaire with semantic differential and COMMAP. Semantic differential consisted of 35 bipolar characteristics measuring 7 dimensions (*attractiveness, trustworthiness, expertise, genuineness, competence, excitement, sociability*) on a 7-point scale based on previous research of R. Ohanian (1991) and S.M. Choi and N.J. Rifon (2007). COMMAP consisted of 32 statements representing (other) 7 dimensions (*entertainment, familiarity, empathy, alienation, relevant news, confusion, brand reinforcement*) evaluated on a 5-point scale. We can see all dimensions in Table 1.

Research sample consisted of a total of 255 participants (17–23 years - adolescents; mean age = 20,5; 156 females = 61%) who completed a paper-and-pencil questionnaire (8 participants were discarded). Regarding the research procedure itself, participants were asked to evaluate the attributes of selected celebrity endorsers (Lukáš Latinák and Michaela Čobejová) within the proposed semantic differential scale, as well as to assign whether or not they know this celebrity (celebrity awareness). Subsequently, participants were asked to view two of celebrity endorsed social ads (“Belasý motýl”² and “Iný kraj, iný mrav”³). Exposure to the ads was followed by the measures of the ad-likeability within the COMMAP model previously described.

Table 1: Scale items for construct measures (Source: own adaptation)
 (Table ends on the next page)

	Semantic differential adjectives (1, least positive → 7, most positive)	Likert scale (1, least positive → 5, most positive)
Attractiveness	1. Attractive/Unattractive 2. Classy/Not classy 3. Beautiful/Ugly 4. Elegant/Inelegant 5. Sexy/Not sexy	
Trustworthiness	1. Dependable/Undependable 2. Honest/Dishonest 3. Sincere/Insincere 4. Trustworthy/Untrustworthy	
Expertise	1. Experienced/Inexperienced 2. Practical /Unpractical 3. Qualified/Amateurish 4. Skilled/Unskilled	

² Campaign „Belasý motýl“ [Blue butterfly] aims to raise awareness regarding muscular dystrophy disease as well as raise money for this cause. Its storyline presents various people taking a deep breath while the voiceover (celebrity Lukáš Latinák) speaks about the fact that this medical condition can cause a respiratory failure. In the end a boy with muscular dystrophy on a wheelchair says „thank you”. Celebrity endorser is showed at the very beginning of this commercial behind a microphone. This commercial was aired in multiple versions with other Slovak celebrities. (<https://www.youtube.com/watch?v=eN8QPuH8IhA>, [15.3.2017])

³ In the commercial of The Center for International Legal Protection of Children and Youth Michaela Čobejová tells a story (showed as a puppet theatre) about a little boy who haven't seen his father for over a year because his mother took him to a foreign country. The main claim says „Different country, different customs...therefore you think about the fact that both you and your children are marrying a partner from a foreign country for better and worse”. There are also other adverts as a part of this campaign featuring other Slovak celebrities and telling unfortunate stories of parents and children based on the fact that one parent is a foreigner. Campaign evoked controversial reactions with some people thinking it is xenophobic. (<https://www.youtube.com/watch?v=yrb3nyD1twz> , [15.3.2017])

Genuineness	1. Socially responsible/ Socially irresponsible	
	2. Wise/Stupid	
3. Pleasant/Obnoxious		
4. Comfortable/Uncomfortable		
5. Sophisticated/Naïve		
6. Organised/Chaotic		
7. Rational/Emotional		
8. Modest/Vain		
9. Caring/Uncaring		
10. Family-oriented/Lonesome		
11. Tactful/Rude		
Competence	1. Strong/Weak	
	2. Confident/Apprehensive	
	3. Enthusiastic/Indifferent	
	4. Decisive/Hesitating	
	5. Athletic/Not athletic	
Excitement	1. Rugged/Delicate	
	2. Excitable/Calm	
	3. Dominating/Submissive	
	4. Masculine/Feminine	
Sociability	1. Public/Private	
	2. Bold/Shy	
Ad likeability		1. Entertainment 2. Familiarity 3. Empathy 4. Alienation 5. Relevant News 6. Confusion 7. Brand Reinforcement

3. ANALYSIS AND RESULTS

3.1. Semantic differential

By the means of semantic differential we were trying to encompass the perception of celebrity endorsers. We were interested in its internal consistency (since it was designed for the purposes of our research project). The value of Cronbach's alpha for the whole semantic differential is 0,849 indicating very good internal consistency of this tool measuring perception of celebrity endorsers attributes. However, because our semantic differential is containing various dimensions that may/or may not prove to be correlated, we also computed Cronbach's alpha for each dimension individually as you can see in the Table 2.

Dimension	No. of items	Cronbach's Alpha
Attractiveness	5	0,853
Trustworthiness	4	0,896
Expertise	4	0,671
Genuineness	11	0,801
Competence	5	0,616
Excitement	4	-0,280 ⁴
Sociability	2	0,307

Table 2: Cronbach's alpha values according to dimensions of semantic differential designed to capture the perception of celebrity endorsers attributes (Source: own research)

Each value of Cronbach's Alpha should exceed 0,7 (Hair, Anderson, Tatham and Black, 1998). Trustworthiness is the dimension measuring the best the underlying construct. The internal consistency of dimensions excitement and sociability is low. This division will help us improve the consistency of our semantic differential for the purposes for future research by adjusting dimensions so they better capture the essence of what they are representing. For example, we plan to add more items to Sociability dimension so it would be more understandable.

Regarding the perception of selected celebrities, more positively evaluated (on a scale from 1 to 7) was (actor) Lukáš Latinák (mean=4,96, st. dev.= 0,54, min. = 3,29, max. = 6,32) in comparison to (actor) Michela Čobejová (mean=4,51, st. dev.= 0,70, min. = 2,15, max. = 6,69). There was not a statistically significant difference in evaluation of selected celebrities based on participant's gender⁵ (Michaela Čobejová: $U = 6866,00$; $p = 0,447$; Lukáš Latinák: $U = 7633,50$; $p = 0,877$). We didn't find a statistically significant correlations⁶ between the overall evaluation of celebrities and the likeability of the respective advertisements they were endorsing. Overall, the evaluations of both celebrities show a weak positive statistically significant correlation between them ($r=0,381$, $p=0,01$) suggesting a slightly similar perception of both protagonists.

3.2. COMMAP

We used COMMAP model introduced by Eric Du Plessis (2007) to measure ad likeability as a predictor of ad effectiveness in case of two social ads. Picture 1 shows a position of both examined ads within the dimensions of COMMAP model described above. Horizontal axis shows ad likeability, blue lines represent aspects of advertising determining its likeability. Familiarity (in the sense of weariness or boredom), alienation and confusion cause a decrease in ad likeability, relevant news in the ad, possibility to empathise (e.g. with protagonists in the ad) and entertainment increase ad liking (Du Plessis, 2007). We found a weak positive statistically significant correlation between ad likeability of two examined social advertisements ($r=0,456$, $p=0,01$). „Different country, different customs” ad slightly outperformed „Blue butterfly” based on the average evaluations of all dimensions altogether (mean for „Iný kraj, iný mrav” [„Different country, different customs”] = 3,29; mean for „Belasý motýl” [„Blue butterfly”] = 3,20) „Different country, different customs” was perceived as slightly more entertaining, offering more relevant news and generating more empathy as a possible consequence of the fact that people better identify with the problem concerning family in comparison to a problem concerning muscular dystrophy (there exist a high probability

⁴ Cronbach's alpha is based on correlations among items, so if these correlations are negative, alpha will be negative.

⁵ Determined by Mann-Whitney U test.

⁶ Using Spearman correlations.

majority of people doesn't know anybody with this condition). This ad was perceived as more confusing. It may be caused by the fact that issue of problems in family caused by a parent from a foreign country is not often presented so participants don't know what attitude they should hold towards it. The evaluation of both advertisements (both overall evaluation and evaluation of particular dimensions (see Table 1 – Ad likeability) was rather positive (above 3,0 as the center of the scale) suggesting a rather positive attitude of our research sample to these advertisements. Interestingly, the perception of the dimension added to COMMAP model called Brand reinforcement⁷ gained the lowest evaluation for both campaigns (mean for „Iný kraj, iný mrav” [„Different country, different customs”] = 2,77; mean for „Belasý motýl” [„Blue butterfly”] = 2,55) suggesting that the perception of an ad is better than the viewer's perception of the organization that is promoting the cause. This is certainly an impetus for a future research. All averages are quite close to the center of the scale suggesting rather inconclusive perception. In relation to previous statement, when evaluating advertising campaigns, advertising research often neglects previous knowledge of recipients (and we know from cognitive psychology memories and previous experiences influence decision making process). Because of that, we wanted to examine the influence of celebrity awareness (whether participant knows the celebrity or not)⁸ on ad-likeability as a determinant of advertising effectiveness. The likeability of „Iný kraj, iný mrav” [„Different country, different customs”] featuring Micheala Čobejová was dependent on celebrity awareness (U=3129,50, p=0,033). Possible implication is that participant who didn't know this celebrity were evaluating her more towards the neutral point biasing our statistics. We did not examine this relationship for the other celebrity Lukáš Latinák, because nearly all of our research participants stated that they know him. Moreover, we were interested whether or not ad likeability depends on participant's gender. The relationship was present for „Blue Butterfly” advertisement (U=6266,50, p=0,016), but not for Different country, different customs (U=6916,00, p=0,201).

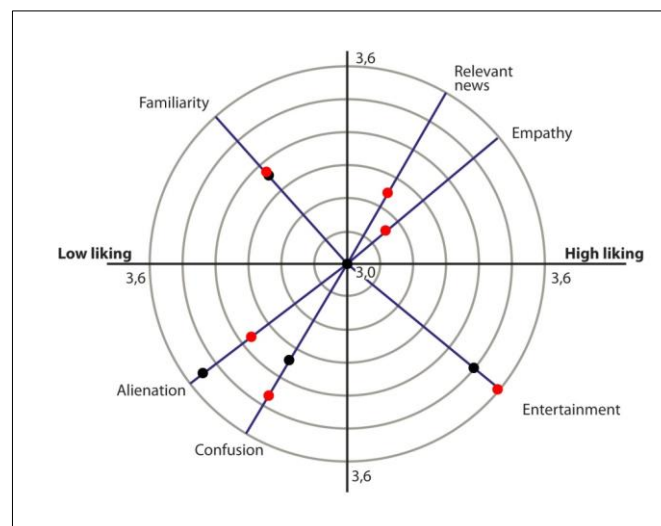


Figure 1. Two examined social advertising campaigns placed within Du Plessis's COMMAP model⁹ (note: red = „Iný kraj, iný mrav” [„Different country, different customs”]; black = „Belasý motýl” [„Blue butterfly”])

⁷ Containing in our questionnaire only two statements: I know this resident's association is reliable and of a good quality; This resident's association is good, I wouldn't hesitate to let others know about it.

⁸ 0,8% of research sample did not know Lukáš Latinák and 15% did not know Michaela Čobejová.

⁹ Based on average values for each dimension.

3.3. Semantic differential vs. COMMAP

The main purpose of our research was to examine relationships between celebrity attributes and advertising effectiveness with the focus on ad liking. Factor analysis was conducted in order to verify the structure of dimensions we used. In our semantic differential, all dimensions (factors) were significant¹⁰. We can conclude that our semantic differential has good construct validity. Regarding the validity of COMMAP model two dimensions (factors) happened to be not significant. In case of „Blue butterfly” it is Brand reinforcement ($p=0,721$) and in case of „Different country, different customs” insignificant is confusion dimension ($p=0,451$). Our data didn't prove a statistically significant relationship between the evaluation of a celebrity and ad likeability of an advertisement he/she was endorsing. Nonetheless, we later conducted a multiple regression analysis in order to validate the model where dimensions of celebrity endorser predict likeability of an advertisement endorsed by this celebrity (with dependent variable of ad likeability and dimensions of celebrity endorser perception as independent variables). In both cases (for Lukáš Latinák endorsing „Belasý motýl” as well as Michaela Čobejová endorsing „Iný kraj, iný mrav”) regression model was statistically significant (Latinák ↔ BM: $R^2= 0,102$, $p= 0,001$; Čobejová ↔ IKIM: $R^2= 0,075$, $p= 0,009$). Therefore we can conclude that the group of independent variables (in our case dimensions of celebrity endorser perception - *attractiveness, trustworthiness, expertise, genuineness, competence, excitement, sociability*) predict (explain) our dependent variable of social advertising likeability. But we should pay attention to the extent to which this model can explain observed relationship. In both our cases, R^2 coefficient explaining the proportion of variance in the dependent variable (ad likeability) which can be explained by the independent variables (dimensions of celebrity endorser perception) is very low indicating that only 10,2% and 7,5% of social ad likeability variance could be explained by the perceptions of celebrities in respective dimensions. In following tables we can see to what extent particular independent variables predict the dependent variable (B value¹¹) and the significance telling us whether a given coefficient is significantly different from zero. We can see that these coefficients are very low and not significantly different from zero – the predictive power of regression analysis is very weak.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,961	,255		7,702	,000
	LL_ATT_Mean	,062	,036	,113	1,706	,089
	LL_TRUST_Mean	,049	,033	,109	1,489	,138
	LL_EXP_Mean	,020	,045	,039	,449	,654
	LL_GEN_Mean	-,001	,058	-,001	-,017	,986
	LL_COM_Mean	,022	,044	,036	,490	,625
	LL_EXCIT_Mean	,050	,045	,082	1,092	,276
	LL_SOC_Mean	,043	,025	,121	1,702	,090

Table 3. Regression analysis coefficients for Lukáš Latinák perception predicting Blue butterfly ad likeability (Source: SPSS output, own research)

¹⁰ For Lukáš Latinák, factors cover 53,63% of data variance, for Michaela Čobejová factors explain 61,32% of data variance, in case of „Blue butterfly” 57,39% of data variance and in case of „Different country, different customs” 57,84% of overall variance in data.

¹¹ For example, the coefficient for attractiveness is 0.062 meaning that for every unit increase in attractiveness, a 0.062 unit increase in ad likeability is predicted with all other variables constant.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,562	,234		10,967	,000
	MČ_ATT_Mean	,003	,033	,008	,094	,925
	MČ_TRUST_Mean	-,029	,040	-,070	-,732	,465
	MČ_EXP_Mean	-,095	,045	-,207	-2,116	,035
	MČ_GEN_Mean	,239	,067	,410	3,577	,000
	MČ_COM_Mean	-,001	,045	-,001	-,014	,989
	MČ_EXCIT_Mean	,005	,044	,008	,126	,900
	MČ_SOC_Mean	-,014	,027	-,035	-,513	,609

Table 4. Regression analysis coefficients for Michaela Čobejová perception predicting „Different country, different customs” ad likeability (Source: SPSS output, own research)

In case of Michaela Čobejová, two dimensions were significantly different from zero in our regression analysis. Surprisingly, the value for expertise is negative. In literature, expertise of an endorser is usually a factor positively influencing ad performance, here, the higher perceived expertise is, the lower ad likeability will be. According to this regression model, perceived genuineness positively influences ad likeability.

Regression analysis provided us also correlations between incorporated dimensions. Correlations between particular dimensions of Lukáš Latinák’s (celebrity) perception and ad likeability („Blue butterfly”) are for all the dimensions statistically significant ($p=0,01$) positive, but very weak (ranging from 0,169 to 0,243). Dimensions of Michaela Čobejová evaluations and ad likeability (of „Different country, different customs”) are not correlated except from the dimension of genuineness and yet, correlation is very weak ($r=0,213$, $p=0,01$). We should remember that correlation analysis do not represent a causal relationship (in contrast with regression analysis). All our correlations in a correlation matrix were positive meaning that the increase in one variable is causing the increase of the other observed variable.

4. CONCLUSION

Understanding celebrity endorsers effectiveness and factors influencing ad likeability is an important issue for both academics and practitioners. Findings of this study provide implications for both theory and practice of marketing communication. Academics and researchers can benefit from theory overview, presented research tools and research design, practitioners can use both the theory and results when designing and pre-testing advertising campaigns more so celebrities are widely used for promotional purposes. Presented dimensions of celebrity images can help advertisers understand consumer perceptions of celebrities. Besides, we were focusing on social advertising (of non-profit organizations) – an area that is both beneficial to the society and not so covered in terms of academic interest (in comparison to "classic" products and services). In this paper, we presented a research of ad likeability as a determinant of advertising effectiveness and its relation to perceived celebrity endorser attributes. In our research, we determined ad likeability of observed ads based on attributes of well-established COMMAP model. In general, more positively evaluated was Lukáš Latinák as a celebrity and advertisement endorsed by Michaela Čobejová concerning family issues caused by a parent originating from or leaving to a foreign country. Evaluations of both ads were rather positive, but composed around the center of the scale. We performed a regression

analysis in order to validate the model where dimensions of celebrity endorser predicted likeability of an advertisement endorsed by this celebrity. The link between the evaluation of a celebrity and ad liking seems to be very weak (based on both correlations and regression analysis). As researchers we are well aware the fact that even though results are not so "fancy" and conclusive, we should present them to an academic community in order to stimulate discussion and future research and avoid so called file drawer bias when researchers aim to publish only significant, controversial or the most interesting results (biasing the whole knowledge in a respective field). Nevertheless, we are fairly aware of the limitations of our research mainly in terms of research sample size and composition. Alongside presented results we evaluated applied research tools so we can adopt and adjust them in the future in their ameliorated form. We can consider this research as a pre-test of these tools. We are planning to revise our semantic differential according to acquired statistical measures in order to increase its validity and reliability (e.g. we would like to abandon/change items that poorly correlate with each other within the dimensions with low internal consistency (such as excitement), we would like to expand sociability dimension, etc.). Presented research design can also be applied in other contexts. Future research impetuses include further examination of a relationship between evaluation of advertisement and evaluation of advertiser – organisation, as well as the inclusion of a variable of donations intentions.

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ANALYSIS OF FOREIGN DIRECT INVESTMENT OPPORTUNITIES IN MACEDONIA

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ABSTRACT

The relationship between foreign direct investment (FDI) and economic growth is the subject of longstanding debates. These foreign investments represent one of the main factors for economic development that can have positive implications for employment and growth in gross domestic product by creating jobs, boosting productivity and competitiveness, industrial specialization, transfer of sophisticated technology and providing fast access to the global market. FDI have a big part in the movement of capital across national borders and become an important source of private external finance for developing countries. There is no longer the question whether to open the doors of the national economy for foreign direct investment but what measures and strategies should be taken to attract foreign investors. Governments must have properly conceived macroeconomic policies to attract foreign direct investment, as net benefits of FDI depends, beside the comparative advantages of the host country, also from the its economic policy towards FDI. The countries from the Balkan, including Macedonia, are making great efforts to attract foreign investors, which will enable: inflow of capital, encouraging economic growth and development, renewal of outdated technology, acquisition of new managerial skills and etc. Investment inflow from abroad in these countries is much lower compared to the countries of the European Union, and because of that there is a necessity for greater activities to promote and attract foreign investors in each country with the help of government measures and policies. The primary goal of this paper is to analyze investment opportunities in Macedonia, in the context of an analysis of the benefits and opportunities arising from investment for foreign investors. The secondary goal is to evaluate and expose the real conditions for doing business in Republic of Macedonia with accent on the possibilities and the limitations that could burden the foreign investors. All of this will be supported with the results of the empirical research that was implemented in 23 companies with over 10 percent of already invested foreign capital in Republic of Macedonia.

Keywords: *Capital, FDI – foreign direct investment, Growth, Investor, Opportunities, Republic of Macedonia.*

1. INTRODUCTION

The movement of capital across national borders creates international diversification of business activities that contribute to gaining a competitive advantage and creating global competitive product. International capital movements have significant potential benefits for economies around the world. It affects the economic growth, employment and economic stability of individual countries. The relationship between foreign direct investment (hereinafter “FDI”) and economic growth is the subject of longstanding debates. These foreign investments represent one of the main factors for economic development that can have positive implications for employment and growth in gross domestic product by creating jobs, boosting productivity and competitiveness, industrial specialization, transfer of sophisticated technology and providing fast access to the global market. The countries from the Balkan, including Macedonia,

are making great efforts to attract foreign investors, which will enable: inflow of capital, encouraging economic growth and development, renewal of outdated technology, acquisition of new managerial skills and etc. Investment inflow from abroad in these countries is much lower compared to the countries of the European Union, and because of that there is a necessity for greater activities to promote and attract foreign investors in each country with the help of government measures and policies.

2. RESEARCH OBJECTIVE

The main objective of the research article is to analyze investment opportunities in Republic of Macedonia, in the context of an analysis of the benefits and opportunities arising from foreign investment in this country. The secondary goal includes detection and consideration of the opportunities and prospects for improvement and creation of stimulating macroeconomic environment for attracting FDI in Macedonia.

3. METHODS AND METHODOLOGY

The research was processed by using a wide scale of the scientific methods. The specific range of methods was based on the research needs of the individual parts. We analyzed scientific publications and papers by various authors, statistics. In order to determine the opportunities, advantages, but also the risks and threats for foreign direct investment in Republic of Macedonia, a descriptive research methodology was used with an implementation of a survey. For the purposes of the survey, a pilot study in 23 companies with foreign capital greater than 10% was performed with a questionnaire. The questionnaire was composed of 30 questions (open and closed). We proposed an opportunity not to answer the question that the respondent does not want to answer, or we offered more answers if it deems equally important. The first four questions from the questionnaire were general questions concerning the fundamentals of the company data, and other questions need to give an answer for what are the benefits, opportunities and the difficulties that investors face on a daily basis in Republic of Macedonia, in order to make recommendations for improving the business climate and to attract foreign direct investment. The research was carried out in the period, December 2014 - February 2015, and the processing of the responses was made using Microsoft Office 2010 (Microsoft Excel 2010). The data analysis consisted of examining the surveys for correctness and completeness. All that information was then illustrated and delivered into tables and descriptive statistics, which were constructed to display results with respect to the objectives of this paper.

4. SCOPE OF FOREIGN DIRECT INVESTMENT IN REPUBLIC OF MACEDONIA

Republic of Macedonia, like other transition countries, since its independence constantly makes efforts to attract a larger share of foreign capital through foreign direct investment. Despite that investment inflow from abroad is still much lower compared to the countries of the European Union. A series of measures are regularly taken from economic and legal aspects for creating a favorable international investment environment and achieving a favorable international investment position. In order to increase the interest of foreign investors to invest their capital in the country, Republic of Macedonia implied several macroeconomic reforms and activities relating to the protection of property rights, contract enforcement, and improving efficiency in the functioning of the legislative power with more efficient administration.

Still, foreign investment between 1990 and 1996 was only 64 million US dollars, of which \$ 30 million realized in the privatization process. A significant volume of foreign direct investment of approximately US \$ 150 million was recorded in 1998, which was followed by a further decline with only 88 million US dollars in 1999, mainly due to the increased political risk and escalating crisis in the region. In the next three years the level of foreign direct investment was

on the rise, mainly because of the sale of several public companies with huge capital, sales of Commercial Bank - Skopje, Feni – Kavadarci, Brewery – Bitola, Makedonski Telekom, EMO and many others. As a result of that the foreign investment achieved its maximum, in this period, and in 2001, foreign investment amounted to 447.1 million US dollars with the highest percentage of participation in GDP of 13%. In the period of 2002 – 2005 the foreign investment decline again and FDI withheld at a rather low level with low participation in GDP. Nevertheless with intense policy of the Republic of Macedonia to attract foreign investments supported by targeted and defined informative propaganda, this trend is exceeded in 2006 when it achieved a significant increase of 424.2 million US dollars and 6.5% share in GDP. Its maximum foreign direct investment in Republic of Macedonia has reached in 2007 when it was 699.1 million US dollars. The impact of the global economic crisis in 2008 and 2009 contributed to the trend of growth of foreign direct investment to stop, as in global trends also in Republic of Macedonia. Although in the first year of the crisis was a slight decline in foreign direct investment of 587 million US dollars in 2009 a significant decline of 197.1 million US dollars with a minimum contribution of 2.1% of GDP. (NBRM, 2010) This tendency of decline in foreign direct investment is interrupted by a marginal growth of 4.09% compared to 2009, with the amount of 211 million US dollars in 2010 and an increase of 11.61% compared to 2010 with the amount of 463 30 million US dollars in 2011.

4.1. Sectorial structure of foreign direct investment in the Republic of Macedonia

Foreign direct investment in the Republic of Macedonia, in the period, from 1997 to 2014, is most represented in manufacturing and services activities. That can be seen from the attached Chart 1.

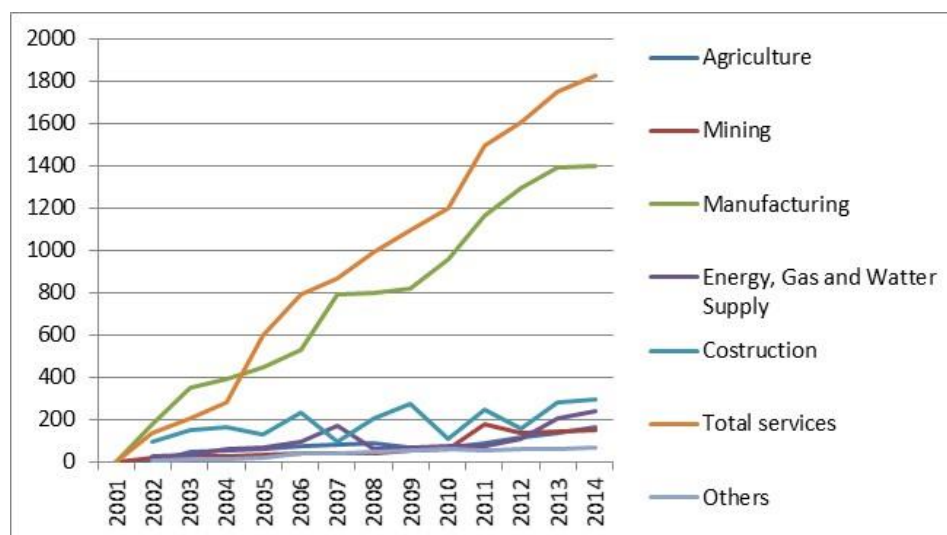


Chart 1: FDI by activities in Republic of Macedonia for the period 2001 - 2014 expressed in millions of dollars. (Bureau of Statistics of Republic of Macedonia. (2014). Annual statistical data on FDI. Retrieved <http://www.stat.gov.mk/>)

In general, sectors where the country has the greatest success are from the automobile, mechanical and food industry. Companies like the British Johnson Matthey and Jonson Controls, leaders in terms of experience in the automotive industry, are operating in Macedonia since 2009. Exactly in that year Macedonia marks a major increase in capital invested in the automotive industry, with accompanying increases in exports of automotive parts in several foreign countries. Namely, foreign direct investment in manufacturing and service sector have continuously grown, with the exception of 2008, when as a result of the crisis came to a slight decrease, which was stopped in 2009 with the huge investment of Jonson Matthey.

From the service industry, in 2011, foreign direct investments are least represented in the health sector by only 0.10%, and 0.09% in education. Furthermore in 2011, the most represented foreign direct investment from services were investments in financial and insurance activities amounting to 26.75%. Guided by these data, the next primary goal of the government was to direct the attention of the foreign investors specifically to the health sector, but also keeping the trend for inflow of foreign capital in the manufacturing sector by continuously investing in infrastructure and industry zones near big cities.

4.2. Foreign direct investment in Republic of Macedonia by country of origin

If foreign direct investment in the country are analyzed according to the country of origin of the investor, it can be noted that in the period from 1997 to 2014 the largest foreign direct investment are coming from Austria, Greece, the Netherlands, Switzerland, Slovenia, which are continually among the largest investor countries, and also investments from Hungary, Cyprus, Slovakia, Germany and etc. The structures of investments by country and percentage share in the total foreign direct investment in 2014 are shown in Chart 2.

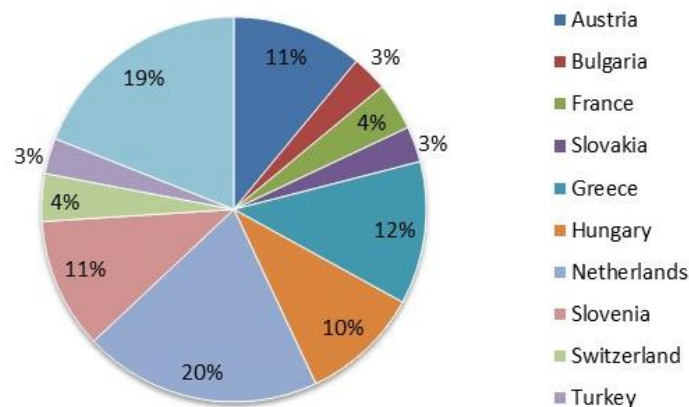


Chart 2: FDI by country of origin in Republic of Macedonia in 2014. (Bureau of Statistics of Republic of Macedonia. (2014). Annual statistical data on FDI. Retrieved <http://www.stat.gov.mk/>)

Investments are driver of long-term development of an economy, and by investing in new machinery, equipment and infrastructure production capacity of the country increases resulting with accelerating economic growth. Despite the already high interest of foreign investors from numerous countries, macedonian government continuously work on improving the business climate and providing diversity of opportunities to invest in Macedonia.

5. OPPORTUNITIES AND RECOMMENDATIONS FOR FOREIGN DIRECT INVESTMENT IN REPUBLIC OF MACEDONIA, BACKED WITH REAL-LIFE DATA

5.1. Results of the conducted survey

The data obtained explain the regional structure of the examined companies with an investment in the country. In addition the data present in the Table 1 shows that 23 of the surveyed companies originate from 12 different countries.

Table 1: Number of surveyed companies by country of origin (Processed by the authors)

Country of origin	Number
Greece	4
Serbia	4
Slovenia	3
Croatia	2
Austria	2
Bulgaria	2
USA	1
UK	1
Italy	1
Slovakia	1
Sweden	1
Germany	1
Switzerland	1

The answer to the ownership structure of the capital has confirmed that it is foreign direct investment, i.e. for companies with more than 10% foreign capital, a minimum requirement to be considered as foreign direct investment in accordance with the accepted definition of foreign direct investment.

The most likely reason for investment in Republic of Macedonia is a major expansion of the market, or 17 of 23 investors said that their motive is market expansion, increasing productivity was motivated for 5 investors, and access of resources was the main motive only for 1 investor.

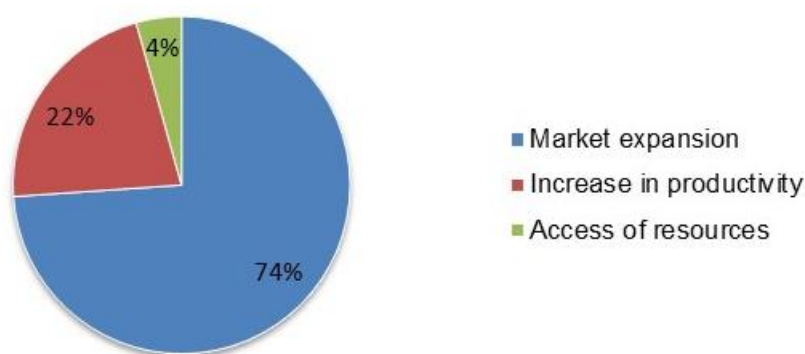


Chart 3: Motives for investments in percentage. (Processed by the authors)

Table following on the next page

Table 2: Evaluation of the fiscal and monetary policy in Republic of Macedonia
(Processed by the authors)

Possibilities	Number of answers	Average
No answer	1	4.2 Little more than “Very good”
1. Worst	0	
2. Poor	1	
3. Good	9	
4. Very good	7	
5. Excellent	5	

One question of survey was oriented on the evaluation of the fiscal and monetary policy of the Republic of Macedonia. For the fiscal and monetary policy implemented by the Republic of Macedonia, 1 of the respondents gave no answer, 1 pleaded with bad, 9 with good, 7 with very good and 5 with great. The average rating for the fiscal and monetary policy, based on the surveyed, was 4.2 or little more than very well as show Table 2.

On the question whether Republic of Macedonia has enough skilled labor, even 16 respondents answered yes, 6 answered no, and only 1 didn’t gave an answer. The fact that sixteen companies were in favor indicates that 70% of the foreign investors are satisfied with the qualifications of the labor force that Republic of Macedonia has to offer.

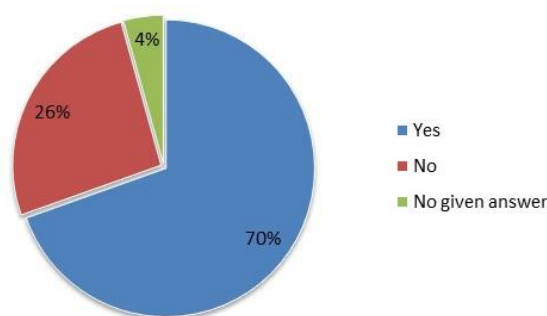


Chart 4: Does Republic of Macedonia have enough qualified workforce? (Processed by the authors)

We included also the question about the number of employees operating in the Republic of Macedonia. Respondents had to answer for the number of people/employees who were employed at the time of survey and the number of people who were employed at the time of acquiring the company if the company was acquired through purchase, takeover or merging. We should figure how specific foreign investments influence the employment with the answers to this question.

One question of survey was about the qualification structure/level of education of employees in respondent company. The largest number of employees within these companies was with secondary education, precisely 1674; 959 employees were with a high education, 148 were without qualification and 453 had masters and 40 employees had PhD degree.

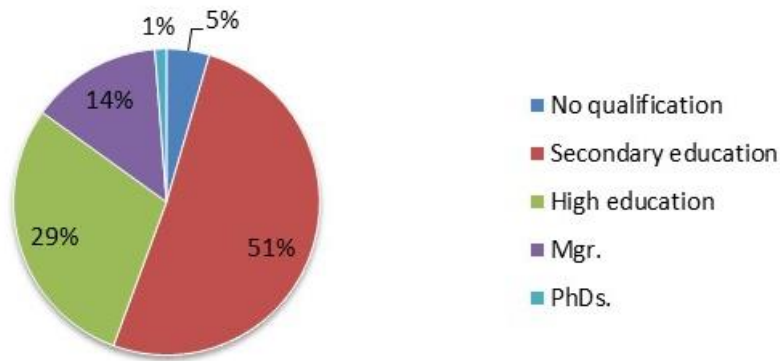


Chart 5: Qualification structure of employees in companies (Processed by the authors)

The 10th question analyzed the type of technology which is used in companies in the Republic of Macedonia. Companies with foreign capital in the country, for the most part, use the same technology as in the parent company which means that FDI positively affect the technological development, and thus economic development of Republic of Macedonia. Table 3 shows the answers to this question.

Table 3: Type of technology used in respondent companies (Processed by the authors)

Possibilities	Number of answers
Same technology as in the home country	17
Technology which was already used in the home country	3
No given answer	3

The analysis of the data on the question “Do you reinvest part of your profits back in Macedonia?” shows that 14 companies answered with “YES”, 5 companies with “NO” and 4 companies didn’t gave an answer reported that 100% of the profits. While 8 of the 14 companies that responded positively reported that they reinvest 100% of the profits, one company replied that reinvest 80%, two 75% and just 10% two companies, while two companies did not answer for a percentage of the profits which are reinvested. Positive business climate in country represents an important indicator that can affect the FDI but attractiveness of country for any other investors. We asked respondents about evaluation of general business climate in the Republic of Macedonia since the period of their initial investment. We wanted to know if they could evaluate this climate as improving. Even sixteen respondents or 70% responded positively, six negatively (26%) and one company (4%) has not responded. High percentage of positive responses from participants leads to the conclusion that the policy of the Government to improve the business climate in Macedonia is effective and well-conceived and gives positive results. At the end of the questionnaire, the owners of the companies were asked whether they face certain difficulties in their operation and what is the type of those difficulties. The answers to this question have been transferred in full and the responses from the foreign investors were:

- Difficulties in securing visas and transport permits
- As a foreigner, I face negative impact due to the opinion of many residential companies that expect easier way to make money from a foreign company. Major damage from many scams and lies
- Difficulties in collection or guarantee recovery of insurance products
- Unfair competition (#4)
- Difficulties due to increasing regulatory requirements from 2011

- Regulatory issues - inspection bodies
- Incorrect and incomplete implementation of laws for the protection of competition
- Facing financial problems, because there is not enough cash flow to cover the obligations
- Administration, bureaucracy, corruption, bribery, - There is an improvement in these issues but still need attention from responsible organs
- Slow and not so efficient judiciary
- Lack of transparency by the regulator / creator of laws, irrational legislation, legal uncertainty

The last question in the questionnaire was from open type and it gives an opportunity for foreign companies to give their suggestions for improving the business climate in Macedonia, as well as suggestions for removal of the obstacles faced in operation. The answers to this question from the foreign investors were:

- Real, concrete, stable and not often changed legislation
- Some changes needed in legislation, more efficient administration
- Contact with companies, repeated meeting, events organized by the government for foreign investors and domestic businesses from the same business activity
- Help from the state in terms of the global crisis due to insufficient funds
- Greater flexibility of all institutions in Macedonia
- Increasing economic power of citizens, reducing unemployment
- Security situation, independence of judiciary, more infrastructure improvements, capital investments
- Providing bank guarantees recovery, greater flexibility in the control from state inspectorate
- Liberalization of the visa regime, providing favorable investment loans and sufficient transport permits
- Increasing incentives for export

5.2. SWOT analysis actual situation and conditions related to foreign direct investment in Macedonia

Based on completed analysis of the situation in the country, supported along with the results of the conducted survey, the following SWOT analysis can be done.

Table following on the next page

Table 4: SWOT analysis (Processed by the authors)

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Favorable geographical position • Access to European markets by the signed bilateral, regional and multilateral agreements • Macroeconomic stability • Highly-skilled and relatively cheap labor • Developed telecommunication infrastructure • Legal protection of foreign investors • The lowest taxes (corporate and personal fixed tax of 10% and 0% tax on reinvested profits) • Ten-year tax holidays • Exemption from paying compensation for arranging construction land in TIDZ and exemption from fee for obtaining building permits in TIDZ • Fast registration of companies through one-stop system 	<ul style="list-style-type: none"> • Small market • Relatively low purchasing power of the population • No access to the sea • Insufficient infrastructure • Underdeveloped technological base • Limited natural resources • Low level of managerial skills
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Prospective EU and NATO membership • Greater utilization of human resources (reducing the outflow of labor abroad) • Involvement in international transport and energy corridors • Better utilization of existing free trade areas and establishing new 	<ul style="list-style-type: none"> • Unresolved name dispute of Republic of Macedonia with Greece • Unfavorable demographic trends and big outflow of highly educated labor force abroad • Severe competition in the region that has seen an a tendency to strengthen political and economic stability (Serbia, Albania, Montenegro) • Inflexible labor market (slow requalification of workers to the needs and demands of foreign investors)

Based on statistical data and results of the survey, we conclude that the Government of the Republic of Macedonia in the period from independence to the current observations is thoroughly committed and conduct intensive policy to attract foreign direct investment. Success is different, but the trend is increasing and is positive suggesting a strategic orientation that should positively affect the economic growth and development, and thus the overall social and societal development of this country. In this direction for strengthening the conditions and opportunities for attracting FDI, the government should commit for:

- Improvement of infrastructure, especially roads, railways and public transport.
- Suppression of the gray economy.
- Increasing the efficiency of the administration, by continuing the reform of public administration.

- Full independence of the judiciary through deep reforms to its setting by international standards.
- Suppression of Corruption and Crime.
- Completion of the legal framework, without often changing of the legal regulations and consistent application of the law.
- Realization of strategic goals for full membership of Macedonia in EU and NATO.
- Investment in education, science and information technology, to create a quality basis for attracting investment.
- Maintaining good inter-ethnic relations and creating a stable political and Security grounds.

Good cooperation with neighbors and building conditions for free movement of factors of production (goods, services, people and capital) under European rules.

6. CONSLUSION

The purpose of this paper was to develop a better understanding of the current economic, legal and political situation in the Republic of Macedonia with reference to the possibilities of the foreign investments, favorable conditions and limitations in this country. Based on the theoretical postulates and results of the survey conducted in companies with foreign capital already invested in Republic of Macedonia, we may conclude that the Republic of Macedonia, although a small country, can be attractive to foreign investors. In that direction government should focus more on better promotion of this benefits that are offered and with which Macedonia has competitive advantages over the countries from the close environment that also implemented policies to attract FDI. With all findings we can conclude that Macedonia is thoroughly committed in conducting an intensive policy to attract foreign direct investment and it should continue to work in this direction. This research was supported also by Slovak Republic Consulate in Macedonia.

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CUSTOMER RELATIONSHIP MANAGEMENT IN LIBRARIES AND DOCUMENT INFORMATION CENTERS: AN EMPIRICAL RESEARCH IN KONYA SELCUK UNIVERSITY LIBRARY

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ABSTRACT

Customer Relationship Management is a marketing management principle which helps firms to establish and maintain beneficial relationships with customers. Since libraries are considered as service firms CRM could be an applicable and beneficial marketing approach for such organizations. Benefits can be summarized as identifying the need and improving the efficiency of the service. In order to identify the relationship between CRM and libraries an empirical research at Selcuk University Library was developed. The aim of this research is to identify the meaning of customer relationship and its link to libraries and document information centers. In the research customers' satisfaction level was evaluated based on three factors which are service factors, employee factors and physical factors. Questionnaire was used as research method.

Keywords: *Customer Relations, Customer Satisfaction, Library Services*

1. INTRODUCTION

Generally, libraries and information document centers are organizations which provide certain information and necessary documents to its users in order to meet their needs in time and in order. Every type of library has some specific aims, but basically they are all exist to provide necessary service to users (Connor, 1993; Wilson, 2001). Basic foundation principle of organizations is to satisfy their customers. The process of survival of organizations depends on customer satisfaction and relationship between customer and the organization. Changing and dynamic marketing conditions requires all organizations to respond to change and competition by implementing innovations, thus, provide customer satisfaction, build and maintain good relations with them. At this point it is important for library managers to be aware of different needs of customers, and take necessary steps to satisfy those needs in time and proper. (Bozkurt, 2008). As developments in globalization increase, organizations should focus on developing good customer relation implementations in order to survive and compete in global market place. Type of services should vary and innovative approaches should be developed. It is not likely that libraries which create value for its users would not be affected from this change. Just like all other organizations, libraries should develop new concepts and approaches to increase its relations with customers. In addition, for last two decades, there are certain developments in extent and quality of services provided by libraries. As Muter pointed out, main reason of competition is customer and organizations which achieve to satisfy customers will exist in market (Yilmaz, 2003). Residual, more technologic and customer based services are being provided and served. "Focusing on customer" and "customer based" approaches constitute

basics of organization's resources and strategies (Al, 2002). As Kutluoğlu mentioned in his research, libraries have started to use modern marketing practices to answer needs of their users, and to increase quality of services (Kutluoğlu, 2007). Another important point should be increasing performance and effectivity of libraries. If effective performance of libraries increases, customer relations will increase as a response. Developments in information technology have increased complexity of providing service for information and document. However, at the same time these developments have created new service alternatives. In a growing globalization environment library managers should follow and implemen modern managing approaches, be aware of changes in micro and macro environment and take proactive steps to answer changes (Aslan, 1990).

2. CONCEPT OF LIBRARY AND INFORMATION DOCUMENT CENTER

Libraries are organizations which collect, and organize any type of publication, and provide proper environment for everybody or for limited groups to utilize those publications (Baysal, 1991). According to UNESCO (1968) libraries are organizations which provides countless numbers of publications, books, magazines etc. in order to satisfy users need of information, research, education and relaxation (Bilar, 2004). Based on previous researches in literature there are five types of libraries; public and children libraries, scholl libraries, university libraries, private libraries and electronic libraries. On the other hand, archives, libraries, documentation centers, information centers and museums are evaluated as types of document information centers.

3. BASIC OF CUSTOMER RELATION MANAGEMENT

Customer Relation Management is a process which includes developing long term relations with customers, understanding customers, increasing their satisfacton level and increasing service quality. (Baran, Galka, & Strun, 2008). According to Kotler CRM is a process of creating superior value for customers and building strong relations with customers (Kotler & Armstrong, 2012). Customer information is an important source for organizations, obtaining and managing such an information carries crucial value for organizations (Khodakarami & Chen, 2014). Basic point of CRM is it takes customer to center. Customer based strategy means, increasig customer satisfaction by focusing on customer needs and market dynamics (Öndoğan, 2010).

4. CUSTOMER RELATIONSHIP MANAGEMENT IN LIBRARIES

Customer is a person who identifies a need or a desire, makes a purchase, and uses the product during consumption process (Solomon, 2014). This is a common definition of customer. However, customer of a library is its users. User is a person who capitalize library's services. In some situations customer and user are considered as same meaning. Some library personel indicates that they consider users as customers and they see no harm calling users as customers (Armağan, 2005). In modern marketing environment there are certain types of customers and all those customers requires interaction, this type of marketing is called as relationship marketing (Helinsky, 1991). According to researches and studies conducted by librarians and academicians, it is understood that libraries are not only known sources of information marketing (Cribb, 1991). Libraries should develop new strategies and approaches in order to continue to exist and execute their social objectives.

5. RESEARCH IN SELCUK UNIVERSITY LIBRARY

Customer relation management is an effective marketing tool that is used by all organizations. Because of the value it creates for its users, library is evaluated as a service provider and all service providers benefits from marketing approaches. The aim of this research is to explain

contribution of customer relation management as a modern marketing approach to libraries which are considered as service organization because of the value it provides for its users. Results of the study reveal CRM's contributions to customer satisfaction. Selcuk University has a large number of students and academicians, thus, it provides a suitable sample environment for research.

5.1. Research and Methodology

In order to reach a valid number sample a survey was conducted in Selcuk University. Sample consists of all users from university library users. Survey comprise of three sections; "Service Dimension, Personel Dimensions, and Physical Dimensions" of library. The aim of surey is to reveal users' opinions about library service and specify their satisfaction level. Survey conducted between the dates of 29 May and 23 June in library. 250 surveys were distributed and only 142 valid surveys were used in research. Simple random sampling method was used in research. There are 39 attitude questions, 3 demographic questions in survey and 5 point Likert scale was used for question evaluation

5.2. Results

Below Table 1 shows gender distribution of participants.

Table 1: Gender Distribution

Gender	Number	Percentage
Male	52	36,6
Female	90	63,4
Total	142	100

Research participants consist of 36,6 % male, 63,4 % female. It can be concluded that females use libraries more than males.

Below Table 2 shows age distribution of participants.

Table 2: Age Distribution

Age	Number	Percentage
17-20	7	4,9
21-25	124	87,3
26-30	9	6,3
31-35	2	1,4
Total	142	100

Considering the frequency distribution of participants' age differences "21-25" age group forms biggest majority by 87,3 %, second group is "26-30" with 6,3 %, other groups and percentages are as follow respectively, "17-20" age group 4,9 %, "31-35" 1,4%. It can be concluded that majority of library users consist of university students.

Below Table 3 shows participants' education status.

Table 3: Education Status

3. Choose best option that defines you.	N	P
Associate Degree	2	1,4
Undergraduate	117	82,4
Graduate	9	6,3
Academician	13	9,2
Other	1	0,7
Total	142	100

As it can be observed from data majority of participants consists of undergraduate at 82,4%. Other groups are follows respectively academicians at 9, 2%, graduate at 6,3%. Associate degree and other shows very low percentages. It can be concluded that university student use library effectively. On the other hand, it is important to note that other participant groups do not use library effectively. Especially academician and graduate participant group shows very low numbers. This situation may cause another research question. It should be considered that why academicians library use is very low number where in fact it should be in higher numbers. Below Table 4 shows participants' library using frequencies.

Table 4: Participants Library Using Frequencies

Please indicate your library using frequency.	N	P
Everyday	4	2,8
A few times in a week	25	17,6
One time in two weeks	38	26,8
One time in month	75	52,8
Total	142	100

Considering participants library using frequencies results are shocking and perturbative. One time in a month choice has highest rate with degree of 52, 8 %. Other choices are follows respectively one time in two weeks 26, 8 %, a few times in a week 17, 6%, and everyday choice is lowest with 2,8 %. As it can be seen in the table it can be said that research participants or library users are not interested in using library. Reasons of such a situation should be researched and effective solutions should be implemented. Likewise, library using motives and reasons could explain this situation. As it can be seen next table "Studying" option is first priority of using library with 76%. "Researching" comes as second choice with 56%.

Table 5: Participants' Library Using Motives

Please indicate and designate your basic motives of using the library	N	P
Researching	79	0,56
Reading Magazine	50	0,35
Studying	108	0,76
Reading Book	63	0,44
Using Internet	49	0,35
Using Electronic Resources	54	0,38
Borrowing book, cd etc.	72	0,51
Total	142	1,00

Factor analysis has been evaluated in order to determine the participants' perception about library sufficiency and service quality. In order to test the convenience of date set to factor analysis Kaiser-Meyer-Olkin (KMO) sample sufficiency test and Bartlett sphericity test are

implemented. According to results, it is evaluated that KMO value and Bartlett test queuing possibility are significant at value of 0, 80 and 0. 05. After removing variables from analysis KMO value is evaluated 0,823. Table 6 provides necessary details.

Table 6: Library sufficiency and service quality scale perceptions

Factor	Item	Frequency Weights			Cronbach Alpha
		1	2	3	
Service Dimensions	Q29 Library service using orientation program is sufficient	0,743			0,869
	Q28 There is an orientation program for users in order to use library services effectively.	0,721			
	Q36 Library management conducts researches and surveys in order to get feedback from users	0,607			
	Q19 Orientation program about electronic sources is sufficient	0,586			
	Q17 Orientation program about library sources and services is sufficient.	0,583			
	Q16 New arrival publications and subscribed data bases are announced immediately.	0,577			
	Q18 There is an orientation program about electronic source usage	0,577			
	Q35 Library staff takes note of suggestions and complaints about service.	0,576			
	Q27 Arrangements based on users needs are sufficient	0,510			
	Q23 Electronic equipment (computer, printer etc.) is sufficient.	0,496			
	Q1 Publications, books, magazines about my research are sufficient and updated	0,474			
	Q4 There is enough foreign resource in library.	0,438			
	Q32 Users needs are considered in process of source selection.	0,435			
	Q37 I can reach management when I need to communicate with them.	0,423			
Personel Dimensions	Q25 Library staff is knowledgeable and has nice manner towards problem solving.		0,722		0,850
	Q7 Library staff is kind, nice, and smiling.		0,720		
	Q24 Consultation service is sufficient.		0,717		
	Q31 I can communicate easily with staff when I need to.		0,714		
	Q8 Staff is well qualified about giving service.		0,633		
	Q5 Services are executed quickly in library		0,597		
	Q30 If a source is not in place where it should be library staff lend assistance and give information.		0,570		
	Q34 When I complaint about services staff welcomes warmly		0,536		
	Q15 I can easily find my need in library website		0,455		
Q26 Responding time to complaints and suggestions is shortly and sufficient		0,434			
Physical Dimensions	Q20 Lighting is sufficient			0,834	0,811
	Q21 Library is convenient for studying and learning			0,767	
	Q12 Heating and ventilation is sufficient			0,751	
	Q22 Library is clear and tidy			0,604	
Attribute		8,47	2,31	2,16	
Explained Variance (%)		17,822	16,822	11,611	
Total Variance (%)		46,254			

Notes: (i) Varimax Rotation Principle Component Analysis (ii) KMO = 0,823, Barlett Test = 1861,655; p<.001

In order to analyze library sufficiency and service quality scale perceptions data set principle component method and Varimax rotation were used. After factor analysis, questions and variables which have lower factor loadings have been eliminated. Variables which have been removed from analysis consist of 9, 13,11,6,2,14,3,10 and 33 likert scale statements. According to factor analysis library sufficiency and service quality perceptions are evaluated in three dimensions by participants. Total variance is calculated as 46,254 %. Factors are *Service Dimensions* (14 items), *Personel Dimensions* (10 items), and *Pyhsical Dimensions* (4 items) respectively. When studying the table 6 (See Appendix Table 6) factor loadings for each factor item can be observd. For Service Dimension highest contribution is done by Q 29 with 74, 3 % and lowest contribution is Q37 with 42, 3 %. For Personel Dimension highest contribution comes from Q25 with rate of 72, 2 % and lowest contribution comes from Q26 with rate of 43, 4 %. %. For Physical Dimension highest contribution comes from Q20 with rate of 83, 4 % and lowest contribution comes from Q22 with rate of 60, 4 %. Considering variance ratings acquired from table above Service Dimensions has 17, 8 %, Personel Dimensions has 16,8 %, and Physical Dimensions has 11, 6 % contribution rates. These rates show every dimension's contribution ratio in explaining library sufficiency and service quality perceptions.

Total explained variance is calculated as 46, 25 %. This rate show that almost 47 % of research concept can be explained by research questions and dimensions

5.3. Reliability Analysis

In process of evaluating factors internal consistency Cronbach Alpha parameter is used. This parameter is explained as adaptive value based on questions' correlation. Cronbach Alpha value shows overall reliability value of factors' questions. Cronbach Alpha values are evaluated as 86, 9 %; 85, % and 81, 1% respectively. Since all reliability values are above 70 % it is concluded that all factors have sufficient reliability degree.

Table 71: Reliability Analysis

Factors	Item Number	Cronbah's Alpha
Service Dimensions	14 questions	0,869
Personel Dimensions	10 questions	0,850
Physical Dimensions	4 questions	0,811

5.4. Difference Tests

H₀: There is not any significant difference between library sufficiency and service quality dimensions based on gender differences.

H₁: There is a significant difference between library sufficiency and service quality dimensions based on gender differences.

Table 82: Difference Test Based on Gender Variable

Factors		N	Mean	Std.	t	p
Service Dimension	Male	51	2,626	0,652	-0,418	0,67
	Female	89	2,674	0,658		
Personnel Dimension	Male	52	3,121	0,711	0,499	0,62
	Female	90	3,060	0,699		
Physical Dimension	Male	52	3,572	0,909	0,244	0,80
	Female					

Considering table above it is obvious that there is not any significant difference between library sufficiency and service quality dimensions. Thus, H₀ hypothesis is accepted. In other words gender differences do not affect participants' library sufficiency and service quality perceptions.

H₀: There is not any significant difference between library sufficiency and service quality based on library using frequency.

H₁: There is a significant difference between library sufficiency and service quality based on library using frequency.

Considering Table 9 it is obvious that there is not any significant difference between library sufficiency and service quality dimensions. Thus, H₀ hypothesis is accepted. That is to say that library using frequency does not have an effect on the relationship between library sufficiency and service quality. To conclude, library sufficiency and service quality dimensios have lower ratings. From that ratings it can be said that, in fact, users are not satisfied with those dimensions considering their library using frequency.

Table 9: Difference Test Based on Library Using Frequency

Factors	Library Using Frequency	N	Mean	Std. Dev.	F	P
Service Dimension	Everyday	4	2,357	0,951	0,391	0,759
	A few times in a week	24	2,705	0,680		
	One time in two weeks	37	2,616	0,734		
	One time in a month	75	2,677	0,595		
	Total	140	2,657	0,654		
Personnel Dimension	Everyday	4	2,875	1,204	1,926	0,128
	A few times in a week	25	3,380	0,553		
	One time in two weeks	38	3,008	0,844		
	One time in a month	75	3,032	0,621		
	Total	142	3,082	0,701		
Physical Dimension	Everyday	4	3,313	1,214	0,288	0,834
	A few times in a week	25	3,500	0,919		
	One time in two weeks	38	3,651	0,961		
	One time in a month	75	3,523	0,885		
	Total	142	3,548	0,913		

Table 10 shows participants' importance degree about service dimension of research. It can be observed from table that among all items Q32 "Users needs are considered in process of source selection." has the highest rating with 3, 15 degrees. And lowest rating is Q18 "There is an orientation program about electronic source usage" with 2, 19 degrees. As it can be concluded from table overall average of rates is 2, 66 and it shows participants or users are not satisfied with libraries service dimensions.

Table 10: Importance Degree on Service Dimension Items (Friedman Test) –
(ends on the next page)

Service Dimension Items			
Items	N	Mean	Std. Dev.
Q32 Users needs are considered in process of source selection.	140	3,15	1,07
Q37 I can reach management when I need to communicate with them.	140	2,97	1,11
Q1 Publications, books, magazines about my research are sufficient and updated	140	2,87	1,08
Q27 Arrangements based on users needs are sufficient	140	2,80	1,07
Q36 Library management conducts researches and surveys in order to get feedback from users	140	2,73	1,10
Q29 Library service using orientation program is sufficient	140	2,65	1,04
Q23 Electronic equipment (computer, printer, etc.) is sufficient.	140	2,65	1,07
Q4 There is enough foreign resource in library.	140	2,65	1,05
Q28 There is an orientation program for users in order to use library services effectively.	140	2,64	1,11
Q16 New arrival publications and subscribed data bases are announced immediately.	140	2,55	1,11

Service Dimension Items			
Items	N	Mean	Std. Dev.
Q35 Library staff takes note of suggestions and complaints about service.	140	2,54	1,05
Q17 Orientation program about library sources and services is sufficient.	140	2,49	1,01
Q19 Orientation program about electronic sources is sufficient	140	2,31	1,09
Q18 There is an orientation program about electronic source usage	140	2,19	1,07
Friedman Test, n: 140, Ki-Square: 142,969; p:0,000; 1: Strongly Disagree and 5: Strongly Agree			

Table 11: Importance Degree on Personel Dimension Items (Friedman Test)

Personel Dimension Items			
	N	M	Std.
Q31 I can communicate easily with staff when I need to.	142	3,36	1,03
Q30 If a source is not in place where it should be library staff lend assistance and give information.	142	3,19	1,18
Q5 Services are executed quickly in library	142	3,16	1,16
Q7 Library staff is kind, nice, and smiling.	142	3,15	1,08
Q15 I can easily find my need in library website	142	3,08	1,14
Q25 Library staff is knowledgable and has nice manner towards problem solving.	142	3,05	1,02
Q24 Consultation service is sufficient.	142	3,01	1,03
Q26 Responding time to complaints and suggestions is shortly and sufficient	142	2,96	1,05
Q8 Staff is well qualified about giving service.	142	2,96	1,02
Q34 When I complaint about services staff welcomes warmly	142	2,89	1,01
Friedman Test, n: 140, Ki-Square: 40,499; p: 0,000 1: Strongly Disagree and 5: Strongly Agree			

In Table 11 Personel Dimensions results show that library staff is sufficient with mean of importance rate of 3, 06. According to participants library staff is qualified enough to execute library services. As it can be observed from table above most rated item is ‘‘ I can communicate easily with staff when I need to.’’ with importance rate of 3, 36, and least rated item is ‘‘ When I complaint about services staff welcomes warmly’’ with importance rate of 2, 89. As a conclusion it can be said that personel sufficiency of library at a satisfying level for users.

Table 12: Importance Degree on Physical Dimension Items (Friedman Test)

Physical Dimension Items			
	N	M	Std.
Q21 Library is convient for studying and learning	142	3,69	1,15
Q20 Lighting is sufficient	142	3,63	1,08
Q22 Library is clear and tidy	142	3,58	1,05
Q12 Heating and ventilation is sufficient	142	3,28	1,28
Friedman Test, n: 140, Ki-Square: 23,160; p: 0,000 ; 1: Strongly Disagree and 5: Srongly Agree			

Considering Table 12 participants think library is convenient for studying and learning with 3, 69 rate of importance. Other items follow respectively; ‘‘Lighting is sufficient’’ 3, 63 importance rate, ‘‘Library is clear and tidy’’ 3, 58 importance rate, and ‘‘ Heating and ventilation is sufficient’’ 3, 28 importance rate rate. As a conclusion, it can be seen that participants are satisfied with mean of importance rate of 3, 54 physical environment of library.

6. CONCLUSION

According to data set acquired from analysis it can be concluded that highest satisfying element for library users is library's physical environment. On the other hand, overall library service rate is observed as insufficient. Library's main objective is creating value for users; it means library serves as an organization which aims on providing services. However, as it is evaluated in this research, library has failed to execute its main objective. If library continues to fail in executing main objective, users in other words customers' satisfaction level will continue to decrease and library will not be able to exist in information marketing.

Based on results of research some suggestions are listed below:

- Library management should get feedbacks, recommendations, and complaints from users always and should be in touch with users via mail, announcements etc.
- University libraries should consider users as customers in all processes and treatments.
- All kind of libraries should use all kind of advertising and communication way to reach users, orientation programs about services and electronic sources should be executed more often and effectively.
- Training programs for library staff should be organized

• All kind of sources (written, electronic) should be updated and should be designed user friendly. Information technologies should be used effectively in borrowing return processes.

• If needed physical environment should be reformed and designed to respond users' needs.

Based on results majority of participants, 52 %, use library one time in a month. Considering values and opportunities that libraries provide for users that rate is dramatically very high. Further researches can focus on main reasons behind this. Another research question can focus library using motives. In this research main motive is studying. This might be result of participants being students, however; likewise, it is mostly students who need to make researches and readings to improve and learn. Thereby a research question can be formed using this as basis.

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EVALUATION ON TIME MANAGEMENT SKILLS OF UNIVERSITY STUDENTS

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ABSTRACT

Rapid developments in information and technology lead to different effects in different areas of life. Human life is also affected significantly by these changes. This rapid process of change affects people's lifestyle and also leads to dramatic changes in work life. In addition, technological advances significantly change and accelerate ways of doing business. Therefore, people are faced with problems about using time more effectively and efficiently. In this context, time management skills of the students of Kadınhanı Faik İçil Vocational School were evaluated in this study. Population of the survey is 1400 students studying at Kadınhanı Faik İçil Vocational School in the field of social and natural sciences in the 2015-2016 academic year. Time Management Inventory (SSI) which is designed to measure students' time management skills is used for collecting the data. SSI is developed by Britton ve Tesser (1991) and later it used by Alay and Koçak (2002) and Başak et al. (2008).

Keywords: *Time Management, University Students, Strategic Management*

1. INTRODUCTION

One of the areas requiring to use the time efficiently and effectively is the process of university education. University students are in a position to carry academic activities such as attending the courses of semester, preparing for the exams of the courses carried out and entering these exams, researching related to the courses, and writing the information and findings obtained. The students also perform the requirements of social life such as cinema, theater, music, and sport in their limited times in university. Hence, on the one hand, the students carrying out their educational activities, on the other hand, as a result of participating in social activities, are obliged to use the time efficiently and effectively, in other words, to manage it. In this context, with this study, time management skills of university students are evaluated by an empirical study

2. LITERATURE REVIEW

Time is an abstract concept which has an important place in our life, which is irreversible, and which is difficult to define. In a definition, time is expressed as a perception, which is felt by our sense organs as a result of several successive events, and whose definition is rather difficult (Başak et al., 2008:429). In another definition, differently from the resources such as money, material, machinery, and human skills, time is defined as a resource, which cannot be substituted, cannot be renewed, and cannot be reversed ((Eilon, 1993:255).)

Time management, among the priorities that have vital importance, is to ability to set targets, direct to finalize them, and use a certain time in the most effective way. Therefore, humans need to group the things to be done according to their priorities. In this framework, time management is a self- management skill and enables to control the events we experience (Demirtaş ve Özer, 2007). In other words, time management can be evaluated as the effort to use of the individuals or organizations every kind of resources, including time, to reach their aims (Türkel and Leblebici, 2000:364). According to Lakein, time management includes determination of needs, preparation of aims to reach the needs, prioritization of the required duties, and adjustment of these duties by means of the methods of programming, planning, and listing according to the resources and time (Kocabaş ve Erdem, 2003:192). As in every area, also in the successes of university students, there is an important share of their using fully an appropriately the time they have. Many studies in the literature is in a quality supporting this argument. In this context, some studies taking place in the literature about the effects of time management can be stated as follows Eldeleklioğlu, 2008:658). Macan et al. (1990) found a positive directional significant relationship between the time management skills and academic achievements of university students and negative directional significant relationship between time management and stress. Britton and Tesser (1993), in the study carried out on the freshmen and sophomores in the Psychology Department, Georgia University, put forward that training of time management was effective on the school success. Misra and Mc Kean (2000 argued that the time management skills and anxiety levels of the female students were higher compared to the male students and that their time management skills increased together with the increasing age. Alay (2000), in his study, carried out on university students, identified that there was a positive directional relationship between time management and academic achievement. Erdul (2005), in the study carried out on university students, found the significant relationship between time management and anxiety level. Başak et al. (2008) put forward that the older age students had better time management skill and as the score of time management inventory score increase, that the score of academic achievement increased. Çağlıyan and Göral (2009) expressed that in time management skills of university students according to the gender, statistically significant differences occurred. When the explanations and results of study above mentioned are considered, it can be put forward that managing time better provided the opportunities to better plan career and prepare for future, to more read and learn, to follow the new developments and technology, to reserve more time for the family and the other people, to rest, to have fun, to think, to create new ideas, and to initiate the new projects in individual meaning for university students

3. A STUDY ON TIME MANAGEMENT SKILLS OF VOCATIONAL HIGH SCHOOL

In this section of the study, according to demographical status of the students of vocational high school, information will be given about the aim, hypotheses, methods, and findings of the study carried out to determine and asses the score they receive time management inventory. In addition, whether or not the results obtained in the study are statistically significant will be assessed and whether or not the hypotheses are validated will be tested.

3.1. The Aim Of The Study

The main aim of this study is “to assess the scores vocational high school students receive from time management inventory and examine whether or not these skill scores vary according to demographic characteristics”. The sub-aims determined in the light of this main aim can be put in order as follows.

- Determination of the skill scores of the students associated with time planning.
- Determination of the time attitudes of the students associated with time planning.
- attitudes of time consuming

In the light of these aims, the hypotheses of the study can be stated as follows:

Hypothesis 1: According to the genders of the students, their time management skills are different.

Hypothesis 2: According to the branch the students graduated from, their time management skills are different

Hypothesis 3: The scores of the students, who have training about time management receive from time management inventory, are higher compared to the students, who do not have training.

3.2. Method and Sample Design

In the study, the method of survey was utilized to collect the necessary data. Survey was administered to the students of vocational high school and the scope of the study was limited with 1400 students studying in Kadınhanı Faik İdil Vocational High School in the educational year of 2015-2016. In the direction of aims of the study, in determining the questions in questionnaire prepared, the relevant literature and similar studies, carried out earlier about this subject, were taken into consideration. The questions in questionnaire were compiled from the studies, carried out based on Time Management Inventory (TMI), which was turned into a questionnaire of 35 items by Britton and Tesser (1991). TMI is a scale developed on university students. The validity and reliability of TMI was tested with a study carried out by Alay and in Koçak (2002) on 361 students in Turkey (Middle East Technical University). In the evaluations, it was seen that the scale, whose original was 35 items, was used as 27 items. In another study carried out on 323 students studying in Vocational High School of Nursing, Gülhane Military Medical Academy, the scale of 27 items was again utilized. The sample to be used in this study was limited by 1400 students studying in Kadınhanı Faik İdil Vocational High School in the educational year of 2015-2016. In this context, in order to state whether or not sample mass has ability to represent the main mass, the table of number of sample mass is utilized, which is necessary to be reached, prepared by Yazıcıoğlu and Erdoğan (2004: 49–50) for an universe, whose number is known, considering the different errors of sample. In this context, for the main mass consisting of 2,500 people, the minimum number of sample that must be reached is 93 for ± 0.10 error of sample and the values of actualizing probability of $p = 0,5$, and not actualizing probability of $q = 0.5$. Hence, when considered that the main mass of the study was 1400 people, since a total of 250 students were reached, it can be said that the main mass in the study had the ability to represent the main mass. Survey questions were prepared in the framework of the points, stated by Karasar (2015) and Altunışık et al. (2012) and that is necessary to be paid attention in preparing questionnaire. The questions forming survey consist of list questions asking from the respondents to select those being appropriate for them and scaled questions (Likert Scale) in the form of respondents' ordering what are asked on a scale according to the degree of importance.

3.3. Findings of Study and Assessment

In this section, first of all, demographic information regarding the students participating in the study will be presented. Then, in the framework of these demographic information, time management skills of the students will be assessed.

3.3.1. Demographic Characteristics of the Students

The study was carried out with a total of 290 students and 62.8% (n = 182) of the participants were male and 37.2 % (n = 108) were female. The ages of participants were between 18 and 52 years and the mean of them was 20.95. 22.8% (n = 66) of the participants study in the domain of physical sciences and 77.2 % (n = 224) of them in the domain of social sciences. When the monthly income distributions of the students' families were examined, it is seen 54.5% of them have an income of TL 1300 and less; 35.9 %, at the level of TL 1301-3000; 7.2%, TL 3001-5000; and 2.4%, TL 5000 and more. The domains the participants study were: Mathematics, 16.9% (n = 49); Physical Sciences (n = 23), 7.9 %; Turkish –Mathematics, 5.9% (n = 17); and Social Sciences, 69.3% (n = 201). In addition, while 15.2% (n= 44) of the students had training about time management, 84.8% of them (n = 246) did not have training about this subject at al.

3.3.2. Time Management Skills of the Students

In this study carried out on the students of Kadınhanı Faik İçil Vocational High School, the questions of questionnaire used are based on Time Management Inventory, developed by Britton and Tesser (1991); and in compilation of the data, a scale of 27 items, whose reliability and validity were earlier tested, was utilized. The scale consists of three main titles as (i) Time Planning, (ii) Time Attitudes, and (iii) time consuming things (Başak et al., 2008). The results are presented below. In this context, the assessments of students associated with factors regarding time planning are given in Table 7.

Table 1. Assessment of the Students Regarding Time Planning

Factors associated with time planning	Mean	St.Dev.
Do you determine your priorities and fit them?	3,02	0,96
For your very demanding studies, do you try to program your best time?	2,92	1,10
Do you circle the dates that are important for you on the calendar?	2,88	1,26
Do you identify a date to finish for your works ?	2,81	1,18
Do you determine several aims for yourself every day?	2,71	1,24
Do you carry the things, on which you can work with you to be able to make when you find free time?	2,66	1,19
Do you make the things concerning you every week without planning earlier and without following earlier?	2,66	1,10
Do you set a set of aim for an academic period?	2,60	1,21
Is it clearly marked what you want to achieve for the next week?	2,56	2,25
Even if you do not have any exam in a near date, do you regularly review your course notes?	2,56	1,22
At the beginnings of week, do you determine a set of aim for every week?	2,51	2,32
Before starting the day, do you plan your day?	2,48	1,20
Do you make the program of the activities you have to do in your school days?	2,46	1,31
Do you file the articles or make a photocopy of them in case it can be needed them in the future, even if now?	2,43	1,38
Do you spend time every day for planning?	2,27	1,32
Do you make a list of what you have to do every day?	2,08	1,39
A total of factors regarding time planning¹	2,60	0,78

Notes: (i) n=248; (ii) In the scale, 0 means "never" and 4 "always". (iii) According to Friedman two -way Anova ($\chi^2=196,514$; $p<.001$) the results are statistically significant.

¹ Cronbach's alpha coefficients of the variables were examined before summing points for the variables. Cronbach's alpha coefficients for factors associated with time planning is 0.872. Cronbach's alpha coefficient shows that it is possible to sum item points of variables and use total points in the analysis.

Table 2. Assessments of the students regarding their time attitudes?

Factors associated with time attitudes?	Mean	St.Dev.
Can you quickly make the small decisions?	3,29	0,86
Do you generally think that you can mostly manage all of your aims within week given to you?	3,00	0,96
Do you generally feel that you yourself plan your own time?	2,97	1,01
Do you use your time constructively?	2,95	0,99
Do you need developing yourself in the work of planning your time?	2,92	1,11
Because you do not say "Non" to the people, do you often yourself find in a busy state with the things impeding your school works?	2,75	1,25
If you have nothing to do, do you find yourself in a waiting state for long time?	2,56	1,25
A total of factors associated with time attitudes²	2,92	0,60

Notes: (i) $n=248$; (ii) In the scale, 0 means "never" and 4 "always". (iii) According to Friedman two-way Anova ($\chi^2=80,744$; $p<.001$) the results are statistically significant.

Table 3. Assessments of the students regarding the time consuming factors

Time consuming factors	Mean	St.Dev.
Do you still work on an important schoolwork one night before the last delivery time?	3,07	1,35
In a normal school day, do you spend more time your specific works than school works?	2,53	1,18
Do you continue the activities or habits that are not useful?	2,04	1,46
How many packages of cigarette on average do you smoke a day?	1,80	1,74
A total of factors causing time spending³	2,36	0,99

Notes: (i) $n=275$; (ii) In the scale, 0 means "never" and 4 "always". (iii) According to Friedman two-way Anova ($\chi^2=136,498$; $p<.001$) the results are statistically significant.

When the factors regarding time planning in Table 1 are assessed together, it can be generally said that all items were realized at middle or higher levels. This state can be evaluated in the way that the students feature the factors regarding time planning and make the necessary effort to realize these factors?

It is seen that the levels of the students realize the factors regarding their time attitudes are seen at middle and high level (Table 2). However,, that the item that "when there is nothing to be done, finding yourself in a waiting state" has an importance over average is a remarkable state. When the results in Table are evaluated as a whole, it can be put forward that the students are capable about planning and effectively using the time, when they are engaged in an activity.

In the time consuming factors, the most remarkable state are that the students can experience some disruptions about carrying out the academic activities in time. Another elements that is time consuming for the students is the desire to continue the habits and activities that are not useful for them. Although smoking habits of the students take place in the last order among the items, it is an issue that should be evaluated and taken action in priority (Table 3).

Time consuming things can emerge due to deficiencies in the social and cultural area. However, the only cause of this is not deficiencies in this area. In this context, in this study, whether or not time management skills show a change according to demographic structures (gender, the branch of high school they graduate from, and

² Cronbach's alpha coefficients of the variables were examined before summing points for the variables. Cronbach's alpha coefficients for factors associated with time attitudes is 0.744. Cronbach's alpha coefficient shows that it is possible to sum item points of variables and use total points in the analysis.

³ Cronbach's alpha coefficients of the variables were examined before summing points for the variables. Cronbach's alpha coefficients for factors causing time spending is 0.76. Cronbach's alpha coefficient shows that it is possible to sum item points of variables and use total points in the analysis.

whether or not they are trained about time management) of the students is studied. The next part of the study are reserved to the assessments about this subject.

Table 4. Time Management Inventory according to the gender of the students

Time Management Inventory	Gender				Independent Sample t Test	
	Male (n=182)		Female (n=108)		z	p
	Mean	St.Dev.	Mean	St.Dev.		
Factors regarding time planning	2,52	0,85	2,46	0,88	-0,987	0,324
Factors regarding time attitudes	2,79	0,81	2,77	0,71	-0,969	0,332
Factors regarding time consuming things	2,48	0,98	1,98	1,06	-4,049	<0,001
Time Management Inventory	2,49	0,75	2,38	0,68	-1,944	0,052

When the genders of the students are taken into consideration, it is seen that there is a statistically significant in time consuming factors; however, that there is no significant difference between the groups on the scores of time planning, time consuming things, and in general, time management. These results support Hypothesis 1 in the way of "According to the gender of the students, their time management skills are different" According to the branch of high school the students graduated from, whether or not their time management skills change is studied. The results are presented in Table 4.

Table 4. According to the branch of high school the students graduated from, their time management skills

Time Management Inventory	Branch of High School Graduated from								Kruskal Wallis Test	
	Mathematics (n=49)		Physical Sciences(n=23)		Turkish-Mathematics(n=17)		Social (n=201)		χ^2	p
	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.		
Factors Regarding Time Planning	2,35	1,02	2,88	0,72	2,87	0,62	2,46	0,83	9,232	<0,05
Factors regarding time attitudes	2,54	1,00	3,01	0,74	3,14	0,66	2,79	0,70	9,594	<0,05
Factors Regarding Time Consuming Things	2,20	1,18	2,93	0,79	2,68	0,94	2,21	1,00	13,057	<0,05
Time Management Inventory	2,29	0,95	2,81	0,63	2,81	0,55	2,41	0,66	11,708	<0,05

According to the results in Table 4, on the scores the groups forming according to the branch of high school the students graduated from receive from time management inventory, it is seen that there are statistically significant differences. This state supports Hypothesis 2 in the form of "According to the branch the students graduated from, their time management skills are different"

According to the cases of whether or not the students have training about time management, whether or not their time management skills vary is studied. The results are presented in Table 5.

Table 5. According to the cases of whether or not the students have training about time management, time management inventory

Time Management Inventory	Time Management Training				Independent Sample t Test	
	Yes (n=44)		Non (n=246)		z	p
	Mean	St.Dev.	Mean	St.Dev.		
Factors Regarding Time Planning	2,79	0,65	2,44	0,88	-2,474	<0,05
Factors Regarding Time Attitudes	2,94	0,58	2,76	0,80	-0,927	0,354
Factors Regarding Time Consuming Things	2,63	0,94	2,24	1,04	-2,189	<0,05
Time Management Inventory	2,70	0,57	2,40	0,74	-2,368	<0,05

When Table 5 is examined, it is seen that the students trained about time management receive higher scores compared to the students not trained about this subject. The factors regarding time planning, factors regarding time consuming things, and in general, differentiation of the scores received from time management inventory are statistically significant. On the scores received from the factors time attitudes, there is no statistically significant difference between the groups. This state supports Hypothesis 3, in the form of “The scores of the students, who have training about time management receive from time management inventory, are higher compared to the students, who do not have training”.

4. CONCLUSION

Developing time management skills by using the time efficiently and effectively using the time, which is important in terms of business life, is an important issue for university students. The students are face to face with the problem of efficiently and effectively using the limited time just as there occur in the business life. In this context, in the study, whether or not the scores the students receive from time management inventory vary according to some demographical features was scrutinized. The results obtained can be summarized as follows:

- It is seen that the students gave importance to time planning and made a necessary effort to realize these factors; that the students are capable about planning and using the time, when they are engaged in an activity; and although the students make a necessary effort related to time consuming factors, they could not be adequately successful about these factors
- It is seen that the score the students receive from time management inventory did not differ according to the gender.
- The scores the students receive from time management inventory according to the branch of high school, from which they graduate, are different and this difference is statistically significant.
- It is seen that the scores the students having training about time management from time management inventory are higher.

When the results obtained are evaluated as a whole, it can be said that the students taking place in the scope of study have some individual efforts about time management and they are successful about time planning and time attitudes at the middle and higher level. However, about time consuming factors, it was evaluated that the students cannot be adequately effective and, that they should be supported by training, seminar, or conferences to be given about this subject. In this context, instructing time management as a course can be evaluated as a necessity and/or obligation.

The students of vocational high school, in which this study was carried out, were not directly educated about time management. The students stating that they were trained about this subject, had this training with their own effort. Hence, while the results and hypothesis obtained from the tables are evaluated, this situation was considered. In this context, that the study was carried out on only the students of vocational high school, and that the students, on whom the study was carried out, did not have enough information were the limitation of this study. Hence, in the future studies, after a training was given to the students, on whom the study was carried out, about efficiently and effectively management the time, repeating the study, comparing it the previous studies can be evaluated as an important study area.

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ANALYSIS OF INDUSTRIAL CONCENTRATION IN THE CASE ADRIS GROUP PLC.

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ABSTRACT

The aim of this paper is through the practical and research part show market structure prevailing in the markets. The objective is through a theory to explain and apply through an example of how companies cope in markets of different structures by analyzing the different market structures come to the problem with which every company faces in its operations. Analyzing the company, we can see how the interplay between the environment, resources and the leadership leads to a final decision on the market. Company is subject to external and internal factors that directly or indirectly act on the business. In the modern economy, the most common market structure is monopolistic competition, which is characterized by a large number of companies of different sizes, none of which does not have a large market share. As is similar to perfect competition that distinguishes the products or services which are not identical, so that each company can sell at different prices. In the process of analysis of company considered information company that are available in the financial statements, web site alone company. Using and processing the data itself aims to show the competitiveness of the market in which it operates company. Sources for data collection in this study, foreign and domestic literature on microeconomics, basic economics, managerial economics, accounting. Literature was collected through secondary data sources, primarily using the book library Faculty of Economy in Zagreb, professional publications published on the website. The data required for analysis of the company Adris group plc. were collected on the website of the company, using their financial statements, and Zagreb Stock Exchange website.

Keywords: *industrial concentration; Croatian market.*

1. MARKET POWER INDICATORS

In economics, we interpret the concepts of market power and market share differently. Companies with a large market share may not even have large market power?

There are many factors that affect the level of concentration on a specific industry market, some of which are economies of scale, cost advantages and differentiation of products. The main objective of the concentration measure is to explain the structure of the market, the existing situation and the changes that are taking place in the market. When analyzing, it is possible to use a larger number of indicators that can be systematized according to a specific sector in the market. Industrial structures can be distinguished by the degree of their concentration, i.e. by determining the number and relative size of an enterprise within the industry. The degree of concentration is a major structural industrial variable. Many authors point out concentration as an important factor in explaining the greater or lesser effectiveness of different industries. Different levels of concentration of various industries are the first facts observed by observers. The number of industrial companies and the distribution of their sizes defines the fundamental forms of industrial structure, and if we include the structure of customers and the market structure. In this paper on the example of components from the Adris group plc. We will explain the basic concentration measures such as concentration ratios, Herfindahl index, Gini coefficient, and entropy indicator. Through computer program Excell we are trying to show

market power indicators. We will analyze how large a company, after transformation from one industrial sector with significant big market power and a large share, has come up with its new segment of business combining tourism, healthy food and insurance. Adris group plc. is one of the leading Croatian and regional companies and leader on the criteria of profitability, competitiveness and innovation. It was founded in 2003 by the decision of the most significant company in its tobacco factory Rovinj (TDR). The headquarters of company is in the Istrian region in city of Rovinj. For years, developing and building their own tobacco industry business, time has come for new changes and business development in other attractive businesses. One of the first activities was the development of tourist activity in the group. In 2005, the Maistra plc. hotel company founded in Rovinj, succeeded in 50 years of experience in Tourism business. Today, the company has ten high-quality hotels, eight tourist resorts and six campsites located in prestigious locations in Rovinj and Vrsar. The total portfolios capacity is almost 34,000 guests, making it possible to achieve results that make up about 5% of Croatia's tourist achievements and just over 15% of Istrian tourist achievements. In 2006, Adris group established Abilia, a company specializing in real estate management of all Adris group members. Abilia, in addition to operating real estate activities, manages the activities of building new hotels and business premises. The next segment of the new business was healthy food. The Adris group in 2009 brings together several few smaller domestic fish processing and processing companies in the new Cromaris company headquartered in Zadar. By the merging of Cenmar, Marimir and Marikulture of Istria, Cromaris was created. Adris group's ongoing supply of this segment of healthy foods has resulted in Cromaris being the leading Croatian and tensor producer of bark and oats in the world today, achieving an average annual growth of 40 % and more than 70 % of its revenues being realized on European Union markets. At the beginning of 2014, Adris group became the owner of the oldest Croatian insurance company Croatia osiguranje plc., thus making Adris group a regional leader in the insurance market. After the revitalization of the company's business, a stronger step forward in the region is expected, where Croatia's insurance is growing to become a regional insurance leader who is also competitive on the global market.

1.1. Concentration ratio

One of the most commonly used concentration measures is the concentration ratio that measures the share of the largest companies in a particular industry. The concentration coefficient is based on the sum of individual market shares for a number of largest companies in a particular industry. The concentration coefficient is the percentage of sales of the largest companies in the total sales of the industry. The choice of the number of companies depends on the characteristics of the sector itself and requires special research. Most often, four CR4, eight CR8 or twelve CR12 companies are selected for the purpose and ultimate aim of the research. In some parts of the world, different sees of sector analysis are used, in Europe, the indicator CR5 is used, which determines the concentration based on the market share of the five largest industrial companies, while the US is always used by the four largest companies in the CR4 industry.

The concentration ratio can be represented by the following formula:

$$C_r = \frac{x_1 + x_2 + \dots + x_r}{\sum_{i=1}^N x_i}$$

Where is X_i the value of variable X arranged from the largest to the most, and N is the number of variables.

The value of the concentration ratio index ranges from 0 to 1, approaching 0 when an infinite number of identical companies is present in the industry, while its value is equal to 1, when there is only one industry in the industry. For easier interpretation, the ratio obtained is multiplied by 100, to get a percentage of share in a particular industry. Until now, there is no agreement on the rules of the concentration ratio that would accurately determine the market structure. According to Scherer and Ross ratios are shown if CR4 is greater than 60% is a strong oligopoly, between 40% and 60% is oligopoly and below 40% competition. The biggest shortcoming of this index is that the share of the four largest companies is linear. The concentration ratio does not show differentiation between the different sizes of the company and as far as the four largest companies with the highest market shares are concerned.

To show the market in which Maistra operates, data on sales revenues in 2016 were collected from the 8 largest tourist companies in Croatia listed on the Zagreb Stock Exchange. Data were collected on the Zagreb Stock Exchange website. According to market capitalization they are;

Table 1: Market capitalization eight largest tourism companies

Tourist company	Market capitalization of the company (HRK)
Valamar riviera d.d-RIVP	5.501.102.208,00
Plava laguna d.d-PLAG	3.496.435.200,00
Maistra d.d-MAIS	3.414.633.768,00
HUP-Zagreb d.d-HUPZ	1.252.772.480,00
Turisthotel d.d-TUHO	1.210.294.800,00
Arenaturist d.d.-ARNT	1.091.250.000,00
Liburnia riviera hoteli d.d.-LRH	1.088.902.318,00
Solaris d.d.-SLRS	691.839.103,00
Total	17.747.229.877,00

Source: Author's calculation according to ZSE data <http://zse.hr/default.aspx?id=34349&Sector=I>

Concentration ratios of the 8 largest tourism companies

Table 2: Calculating the Concentration Ratio of 8 Largest Tourism Companies by Revenues Sales

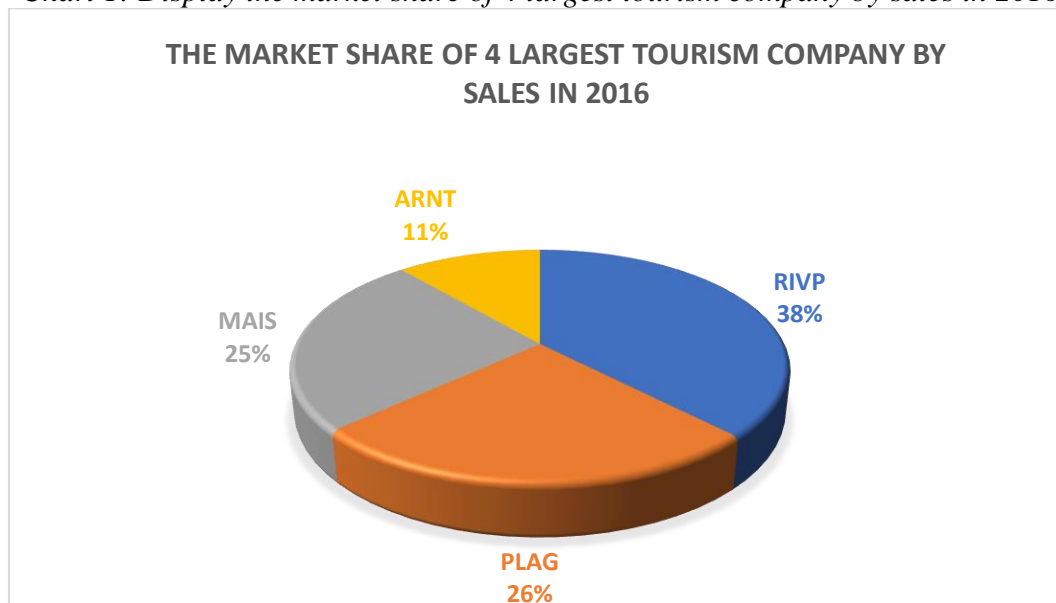
Tourist company	Sales Revenue (mil HRK)	Market share in sales	Concentration ratios
RIVP	1.454,87	28,92%	28,92
PLAG	985,84	19,59%	48,51
MAIS	983,71	19,55%	68,06
ARNT	435,87	8,66%	(CR4) 76,72
SLRS	360,71	7,17%	(CR5) 83,89
HUPZ	328,78	6,53%	(CR6) 90,42
LRH	271,51	5,40%	(CR7) 95,82
TUHO	210,20	4,18%	(CR8) 100
Total	5.031,49	100%	-

Source: Author's work

Based on the collected sales revenue data and market share calculation, the index of shares in four leading tourist companies amounts to CR4 = 76.72. From which we can conclude that it is a market where there is a high degree of concentration.

If we look at only the top four leading tourism companies by the total sales revenues in 2016, Maistra plc. takes third place with a 25% share of total revenue.

Chart 1: Display the market share of 4 largest tourism company by sales in 2016



Source: Author's work

Below we will analyze another Adris group company, which is Croatia osiguranje plc. We will apply the same principles of calculation in the insurance companies market, we will only take as a starting variable the total gross premium realized in 2015 in the 8 largest insurance companies operating on the market of the Republic of Croatia. Data have been downloaded from the 2015 statistical reports by the Croatian Insurance Bureau

Table 3: Calculation of the concentration ratio of the 8 largest insurance companies by total gross premiums written

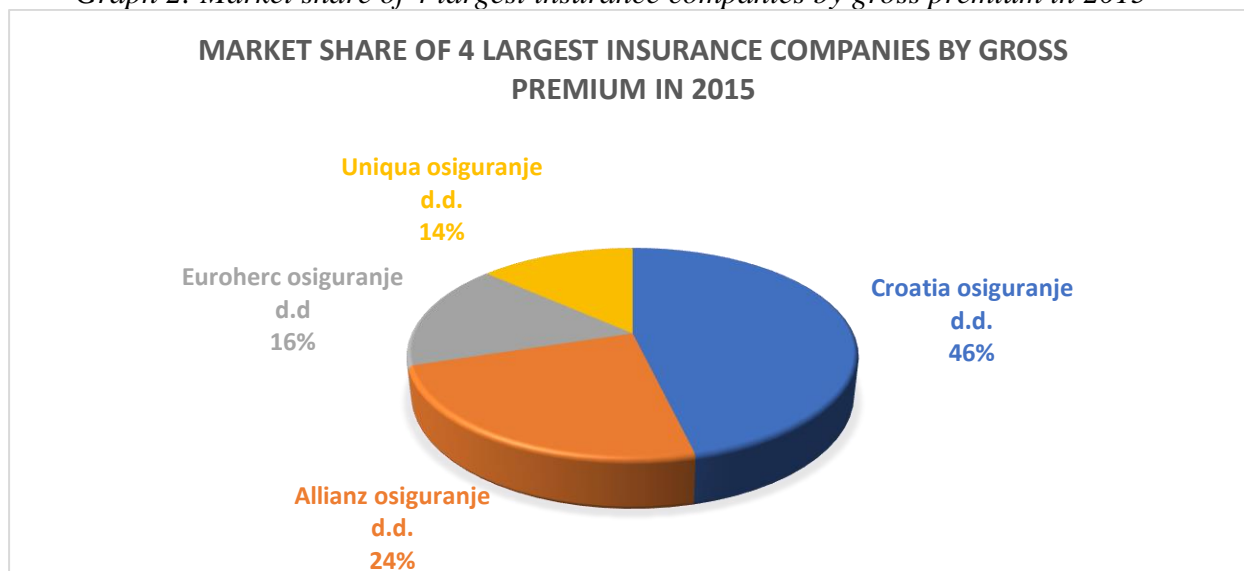
Insurance companies	Gross premiums (mil HRK)	Market share	Concentration ratios
Croatia osiguranje d.d.	2.307.929.601,00	33,29%	33,29
Allianz osiguranje d.d.	1.190.878.885,00	17,18%	50,47
Euroherc osiguranje d.d	819.512.786,00	11,82%	62,29
Uniqua osiguranje d.d.	670.351.751,00	9,67%	(CR4) 71,96
Wiener osiguranje d.d.	546.167.768,00	7,88%	(CR5) 79,84
Jadransko osiguranje d.d.	522.368.554,00	7,53%	(CR6) 87,37
Generali osiguranje d.d.	480.291.737,00	6,93%	(CR7) 94,3
Grawe Hrvatska d.d.	395.630.204,00	5,71%	(CR8) 100
Total	6.933.131.286,00	100,00%	-

Source: Calculating authors according to the data from the statistical reports published on <https://www.huo.hr/eng/statisticka-izvjesca/18/publikacije-arhiva/2015>

On the basis of the collected data on gross premium and market share calculation, the share index in four leading insurance companies amounts to CR4 = 71.96. From which we can conclude that it is a market where there is a high degree of concentration.

If we only look at the top four leading insurance companies on the gross premium in 2015, Croatia osiguranje plc. takes the first place with a 46% share of total gross written premiums. We can assume that Croatia osiguranje plc. with its high market share is leader in the insurance business segment.

Graph 2: Market share of 4 largest insurance companies by gross premium in 2015



Source: Author's work

1.2. Herfindahl index

The Herfindahl index is a measure of enterprise size in relation to the industry and an indicator of the quantity of competition among industry companies. This index is described as the sum of the market share of all the companies that make up the industry. The fall in the value of the Herfindahl Index mainly indicates the loss of price power and increased competition, while the increase suggests the opposite effects. The Herfindahl index can be represented by the following formula:

$$H = \sum_{i=1}^N S_i^2$$

Where is H Herfindahl indicator, n number of companies in the industry and S_i market share of that enterprise.

The value of the index can be expressed in relative and absolute amounts, i.e. in values from 0 to 1 or 0 to 10,000.

In the United States US Department of Justice and Federal Trade Commission provide the assumptions for the three levels of market concentration to place value Herfindahl index:

- The sum of less than 1,500 points is the low level of concentration
- The sum between 1,500 and 2,500 points is considered medium concentration level
- The total of 2,500 points refers to the high degree of market concentration

The advantage of the Herfindahl index, which includes all companies in the market, it provides better information than the concentration ratio. Greater importance is given to companies with higher market share because they are in calculating squared.

Table 4: Calculation of the Herfindahl index in tourism companies

Tourism companies	Sales Revenue (mil HRK)	Market share in sales	Herfindahl index
RIVP	1.454,87	28,92%	836,37
PLAG	985,84	19,59%	383,77
MAIS	983,71	19,55%	382,2
ARNT	435,87	8,66%	75
SLRS	360,71	7,17%	51,41
HUPZ	328,78	6,53%	42,64
LRH	271,51	5,40%	29,16
TUHO	210,20	4,18%	17,47
Total	5.031,49	100%	1818,02

Source: Author's calculation according to the financial statements published at <http://www.zse.hr>

From the obtained results we can conclude that Herfindahl market index is 1818, which tells us that this market is moderately concentrated.

Table 5: Calculation of Herfindahl index of insurance companies

Insurance company	Gross premiums (mil HRK)	Market share	Herfindahl index
Croatia osiguranje d.d.	2.307.929.601,00	33,29%	1108,22
Allianz osiguranje d.d.	1.190.878.885,00	17,18%	295,15
Euroherc osiguranje d.d.	819.512.786,00	11,82%	139,71
Uniqua osiguranje d.d.	670.351.751,00	9,67%	93,51
Wiener osiguranje d.d.	546.167.768,00	7,88%	62,1
Jadransko osiguranje d.d.	522.368.554,00	7,53%	56,7
Generali osiguranje d.d.	480.291.737,00	6,93%	48,02
Grawe Hrvatska d.d.	395.630.204,00	5,71%	32,6
Total	6.933.131.286,00	100,00%	1836,01

Source: Author's work

From the obtained results we can conclude that Herfindahl's market index is 1836, which tells us that this market is moderately concentrated.

1.3. Gini coefficient

Gini coefficient G is the most commonly used measure of inequality, which is based on Lorenz's curve. The Gini coefficient represents a relative concentration measure unlike the absolute measure, such as the Herfindahl index. Formula used to calculate:

$$G = \frac{2 \sum_{i=1}^N ix_i - (N+1) \sum_{i=1}^N x_i}{N \sum_{i=1}^N x_i}$$

Where N is the number of data, and X_i are the individual values of variables. When there is no concentration, the Gini coefficient gains the value of null, and when increasing the concentration, it approaches the value of 1.

Table 6: Calculating the Gini Coefficient of Tourism Companies

Rank	Tourism companies	Sales Revenue (mil HRK)	Gini coefficient
1	8	210,20	-735,7
2	7	271,51	-678,8
3	6	328,78	-493,17
4	5	360,71	-180,36
5	4	435,87	217,94
6	3	983,71	1.475,57
7	2	985,84	2.464,60
8	1	1.454,87	5.092,05
Total	-	5.031,49	6.488,21

Source: Author's work

When we get the data obtained in the formula for the Gini coefficient, we get a Gini coefficient of 0.0402. What tells us that the level of concentration on the market is relatively low. The result obtained is closer to 0 which indicates that almost all companies are of the same size, but this result cannot be considered as a representative sample in the market since we have not taken into account the total number of companies that operate and that there is a large number of inequalities among them.

Table 7: Calculating the Gini Coefficient of Insurance Companies

Rank	Insurance company	Gross premiums (mil HRK)	Gini coefficient
1	8	395,63	-1.384,71
2	7	480,29	-1.200,76
3	6	522,36	-783,54
4	5	546,16	-273,08
5	4	670,35	335,18
6	3	819,51	1.229,27

7	2	1.190,87	2.977,18
8	1	2.307,92	8.077,72
Total	-	6.933,09	8.977,26

Source: Author's work

When we get the data we get into the formula for the Gini coefficient, we get the Gini coefficient of 0.0404. What tells us that the level of concentration on the market is relatively low. The result obtained is closer to 0 which indicates that almost all companies are of the same size, but this result should not be considered as a representative sample of the market since we have not taken into account the total number of companies that operate and that there is a large number of inequalities among them.

1.4. The measure of entropy

Entropy indicator gives relatively greater importance to small businesses. The more competitors in the industry, the entropy indicator is smaller, so it can be said that, by itself, the concentration is directly related to the very small number of companies and the exceptional asymmetry of market shares. The formula for calculating the entropy measure is as follows:

$$E = \sum_{i=1}^N S_i \log_e \left(\frac{1}{S_i} \right)$$

S_i represents market share and N number of companies in the market. The values range between 0 and the natural logarithm of N number of enterprises, and its value is the opposite proportional degree of concentration. The entropy coefficient shows the degree of stability in a given market. If only one retailer would become a market for highly crafted products, consumers would not have the choice of another reseller, and the company's uncertainty would be minimal

Table 8: Calculation of sample concentrations using the entropy coefficient

Tourism companies	Sales revenue	Market share in sales (in relative numbers x)	Log 1/x	$x \log 1/x$
RIVP	1.454,87	0,2892	1,2408	0,3587
PLAG	985,84	0,1959	1,629977	0,3193
MAIS	983,71	0,1955	1,63214	0,3191
ARNT	435,87	0,0866	2,446127	0,2119
SLRS	360,71	0,0717	2,635397	0,1889
HUPZ	328,78	0,0653	2,728763	0,1781
LRH	271,51	0,0540	2,919472	0,1575
TUHO	210,20	0,0418	3,175412	0,1326
Total	5031,49	1	18,40809	1,8664

Source: Author's work

The coefficient of entropy in a given market is $E = 1.8664$ and tells us that the market is relatively stable in terms of distribution of market shares between the 8 largest tourism company by revenue sales companies

Table following on the next page

Table 9: Calculation of sample concentrations using the entropy coefficient

Insurance companies	Gross premium	Market share in sales (in relative numbers x)	Log 1/x	X log 1/x
Croatia osiguranje d.d.	2.307,92	0,3	1,202972	0,3608916
Allianz osiguranje d.d.	1.190,87	0,1718	1,761621	0,3025869
Euroherc osiguranje d.d.	819,51	0,1182	2,135354	0,2524047
Uniqua osiguranje d.d.	670,35	0,0967	2,336261	0,2258895
Wiener osiguranje d.d.	546,16	0,0788	2,541149	0,2001811
Jadransko osiguranje d.d.	522,36	0,075	2,585704	0,1948148
Generali osiguranje d.d.	480,29	0,069	2,669671	0,1849415
Grawe Hrvatska d.d.	395,63	0,057	2,863581	0,1634075
Total	6.933,09	1	18,096313	1,8851176

Source: Author's work

The coefficient of entropy in a given market is $E = 1.8851$ and tells us that the market is relatively stable in terms of distribution of market shares between the 8 largest insurance company in terms of gross premiums.

Cromaris plc. Company breeding and processing of white fish is a third company of Adris group plc. which we will analyze. Due to the specific industries that is in Croatia is at the low levels we are not able to make a detailed analysis as in previous examples due to lack of quality data on production and sales in the same or similar businesses that deal with fish farming.

Cromaris plc. is Croatian leader in aquaculture farming and processing of white fish seabream and seabass preferably smaller part and shellfish. Cromaris is highly export-oriented companies. Almost 90% of sales are achieved in export markets. Exports account for almost four-fifths, or 90%

Cromaris sells and exports the company to 15 different countries. Its most important market is Italy, where it has its own Cromaris Italia company. The market advantage of Cromaris is that all of its products on the main market of Croatia, Italy and the surrounding countries are plowing, up to 24 hours from the bait, adding to it a concrete advantage over the companies from Greece and Turkey which it considers to its competitors.

Third component from Adris group plc. is a company that deals with fish farming Cromaris, because of the extremely low consumption of fresh fish in Croatia does not see the potential for growth in sales, so it is most likely to turn to the nearest Italian market where, according to estimates, the company holds 2% -3% of the white fish market.

Sustainable investments and innovations Cromaris wants to become the European leader in the production of fresh white fish with sales of more than 10,000 tonnes.

From the above data we can conclude that the main components of the Adris group plc. are in a market where there is a tight competition. There is no big "player" in the market that would be able to dictate the total offer and price to other participants.

Further investment and innovations in the tourism sector Maistra plc. is able to increase its market share on the market as tourism in Croatia is growing almost double-graded. There is also room for insurance premium increase in insurance compared to the rest of Europe. Further development of the domestic insurance market could in the future be of importance to the growth of the income of the society itself. The greatest potential is certainly possible in the future in the segment of healthy food, which Adris group plc saw the opportunity.

Due to the proximity and high quality of the sea Cromaris plc. has a significant advantage over other competitors and in the future we can expect to become a resident leader with a significant share in breeding and processing of white fish.

2. FINANCIAL ANALYSIS OF ADRIS GROUP PLC.

Analyzing the business of the company will be presented in the consolidated financial statements in 2015. Analyzing data at the whole group level, we will also touch some of the results in all three primary Adris companies: Maistra plc., Croatia osiguranje plc., Cromaris plc.. Adris group plc. in 2015 realized total revenue of HRK 8.67 billion, and the revenue amounted to HRK 5.88 billion. In the dumped market, HRK 3.53 billion was realized, while in foreign markets HRK 1.62 billion. Net operating profit was HRK 389 million, and HRK 1.04 billion of extraordinary profit from tobacco sales had to be contributed. In 2015, a regular dividend was paid in the amount of HRK 10 per share and an extraordinary dividend of HRK 40 per share. Larger revenues in 2015 are the result of the total annual inclusion of Croatia osiguranje plc. In the group, also the sales of tobacco business are included in the increase in revenue. In the tourist segment Maistra plc. Realized in its tourist capacities 3, 05 million nights and spent 808 million in revenue. Net profit amounted to HRK 102 million.

In the segment of the production of healthy food Cromaris plc. after selling 6 573 tons of white fish, the company achieved a net profit of HRK 6.5 million. The goal in the coming years is to achieve capacity of 10,000 tons of annual production and sales to ensure long-term sustainability of the company. Completed integration of Croatia osiguranje plc. The group has enabled further development of the enterprise, the increase in revenue is the result of better business for existing and future clients. Croatia osiguranje plc. received gross written premium of HRK 2.97 billion, with a market share of 29%.

Liquidity and indebtedness indicators show a highly stable financial strength of the group. The liquidity ratio defined by current assets and current liabilities amounts to a high of 1.7 while the indebtedness ratio is 0.49, which indicates a further possibility of borrowing for future business activities. In 2015 we can evaluate all business of Adris group plc. extremely stable. The market position in all business segments is stable and no part of the business is endangered, in spite of the future strengthening of the market position and cost efficiency, it is possible to increase the Group's future income. Any potential investor investing in financial securities should consider taking a place in this portfolio for such a stable company or at least one part of its business.

3. CONCLUSION

An analysis of some of the concentration indicators explained by this paper can somewhat gain insight into the degree of concentration on particular tourism and insurance markets. The results obtained show that there is a correlation between individual concentration indicators. . Components of Adris group plc. operate in a high level of concentration that is dominated by

the observed markets. However, we cannot show the offer of concentration in a given market as we have not taken into account other variables that contribute to better competition. In order to get a better picture we need to take into account a larger number of companies operating in the industry we analyze, we also need to take into account the industry's development as well as the mutual relationships between the companies.

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CORRUPTION AS A JEOPARDIZING FACTOR OF HEALTH CARE SYSTEM DEVELOPMENT IN REPUBLIC OF SERBIA

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The basic problem of the research in this paper is corruption in the health care system of Republic of Serbia, with a focus on criminal offenses against official duty, viz. criminal offenses under Article 367. and 368. of the Criminal Code of Republic of Serbia: bribery committed by health workers. The subject of the paper researches corruption as a jeopardizing factor for the development of the health care system. The objective of the paper is to acquire a suitable, scientific and social knowledge of the various forms of corruption and mechanisms that the state authorities should use in the combat against this type of threat to society as a whole. Health care refers to the organized and comprehensive action of the society whose aim is to achieve the highest level of preserving the health of citizens and families. Therefore, the main hypotheses in this study are that a higher level of corruption in the health sector means a lower level of health care in society, that is, if the quality of health care is poorer, the slower economic development of society will be. What is particularly emphasized in the paper is that the combat against corruption in the health care system is one of the conditions for joining the EU. The data in this paper have been obtained through content analysis of the documents by associations of patients, judicial bodies and other organizations related to corruption in the health care system of Republic of Serbia.

Keywords: *Corruption, Health care system, Economic development, receiving Bribes, giving Bribes, a Patient*

1. INTRODUCTION

Corruption as a negative social reality has been present throughout the history of human society. It has always been the subject of study from a sociological, philosophical and legal aspect. From Ancient Greece to the present day, many thinkers considered the corruption as deterioration of government and social values, and decline of moral values of people.

Contemporary definitions of corruption can be classified as¹:

- Administrative definition of corruption – corruption is deviate behavior of individual in relation to formal role
- Economic definition of corruption – corruption is getting maximum profit by violating laws and moral
- Public – Interest definition of corruption-using public utilities for personal interests
- From criminological aspects, an acceptable definition might be: corruption is criminal behavior in which the assigned authority is misused for the purpose of personal gain².

Particular weight in deviant behavior of individual, from a moral point of view, is the corruption in the health care sector. Primarily, because it additionally worsens the condition of patients and their families.

¹ Government of Republic of Serbia, Anti-Corruption Council, the official website

² Ignjatovic, Dj.: Criminology, Dosije studio, Belgrade, 2011, pg. 112

It is important to mention aspirations of Republic of Serbia for EU membership, primarily for economic development that would be the basis for the development of the entire society. One of the most important conditions that Serbia needs to fulfill is to reduce corruption in all social systems, particularly in health care system. Undeveloped or underdeveloped countries are fertile ground for the development of corrupt activities. Therefore, it is very important to create social opportunities and intergovernmental relations that will contribute to the fulfillment of conditions for accession to the EU.

2. HEALTH CARE SYSTEM

Health care in Republic of Serbia is regulated by the Law on Health protection³. Health care refers to the organized and comprehensive action of the society whose aim is to achieve the highest level of preserving the health of citizens and families, and includes implementation of measures to preserve and improve citizens' health, control and early detection of diseases, injuries and other health disorders, along with timely and efficient treatment and rehabilitation. The right to health care have a citizen of Republic of Serbia and the other person who have domicile or residence status in the territory of Republic of Serbia. Ensuring health care for the population is based on the principles of accessibility, fairness, comprehensiveness, continuity, and permanent improvement of health care quality and efficiency. Health care of population is carried out at the national level, level of autonomous region, municipality or city, or at the level of an employer and an individual. Health care institution can establish the Republic, an autonomous region, the local government, natural or legal person, under the conditions prescribed by the Law. It can be established using public or private property resources, unless otherwise specified (institutions that perform emergency medical care, preservation and transplantation of organs and parts of the human body, institutes of blood transfusion and public health, etc. are established exclusively by the state). Private practice may be established by an unemployed health care worker with professional practice exam and a health worker, beneficiary of old-age pension. Private practice, as a form of health care service, can be set up as a health office, clinic, laboratory, pharmacy and infirmary. Founder of a private practice has the status of entrepreneurs and self-employed, and is allowed to set up only one form of private practice. A health worker may establish a private practice if it meets the conditions prescribed by the Law on Health care, such as general health ability, university degree or appropriate professional medical school, passed the professional practice exam, entered in the register of the competent Chamber of Commerce, has the appropriate license to operate and other. Private practice can also be set up and perform health care activities if it meets the conditions in terms of personnel, equipment, facilities and the availability of appropriate types and quantities of medicines and medical devices. Health industry in Republic of Serbia is carried out at the primary, secondary and tertiary health care level. Management bodies of the health institutions are the Director, Steering and Supervisory Board.

3. TYPES OF CORRUPTION IN HEALTH CARE SYSTEM

The most common types of corruption in the health care system in Serbia are:

- Search money from patients for the provision of health services, shortening the time on the waiting list for medical examination, diagnostic test and surgery;
- Refusal to provide medical services without justifiable medical reasons;
- Referral of patients from state to private health institution (the reason is usually inability of state institutions to provide adequate service to the patient);

³ Law on Health Care: Official Gazette of RS, no. 107/05, 72/09- state law, 88/10, 99/10, 57/11,119 /12, 45/13- state law, 93/14, 96/15 and 106/15

- Prescribing drugs of pharmaceutical companies from which doctors receive a fee or other material benefit;
- Wrongdoing in drug market and market of medical equipment.

a) Receiving bribes

The doctor must not use medical profession or position in order to acquire illegal material gain or benefit to itself or somebody else⁴.

Receiving bribes is the most common form of corruption in the health care system in Serbia. Bribe is primarily given in cash, gifts or other benefits, which makes it that case a criminal offense under Article 367. Paragraph 1 "An official who directly or indirectly solicits or accepts a gift or other benefit, or promise of a gift or other benefit for himself or another to perform an official act within his competence, or in relation to his/her official powers that should not be performed, or not to perform an official act that should be performed shall be punished by imprisonment of two to twelve years⁵."

Receiving bribes is usually done through unlawful mediation. Health workers who make such offenses usually do not personally ask for money, but do the act through another physician or medical personnel.

The best example for this is the final judgment of the High Court in which Z.G. employed as the official orthopedic specialist of the Institute for Orthopedic Surgery "Banjica", was sentenced to a term of imprisonment of 2 (two) years for accepting bribes. Z.G. Directly demanded money for himself from the aggrieved party K.M. To perform an official act which he was obliged to do within his official mandate⁶. The mere fact that a long period of time passes from the moment of commission of the offense until the pronouncement of the final judgment (often the procedure is statute-barred) is an aggravating factor in the suppression of this criminal work.

b) Giving bribes

The biggest problem in solving the problem of corruption in the health care system is caused by the patients themselves. A sick person sometimes does not choose a method and means to solve their health problems. The closest relatives also offer money to ensure successful treatment of their sick family members. In that way, they enter into the cycle of corruption in health care, which authoritatively makes them a criminal offender.

Whoever makes or offers a gift or other benefit to an official or another to, within his official competence or in relation to his/her official powers, perform an official act that he is obliged to perform, or not to perform an official act that he may not perform, or who acts as intermediary in such bribing of an official, shall be punished by imprisonment up to three years⁷.

Analyzing the research results, it can be concluded that a bribe-giver lack awareness that by giving a gift or doing a favor, they actually make a serious crime.

⁴ Code of Medical Ethics of the Medical Association of Serbia, "Official Gazette", nos. 104/2016, article 18

⁵ Criminal code, "Official Gazette of RS", nos. 85/2005, 88/2005 - emendation, 107/2005 - emendation., 72/2009, 111/2009, 121/2012, 104/2013, 108/2014

⁶ Republic of Serbia, High Court in Belgrade, K.no. 760/12

⁷ Criminal Code, "Official Gazette of RS", nos. 85/2005, 88/2005 - emendation, 107/2005 - emendation., 72/2009, 111/2009, 121/2012, 104/2013, 108/2014

c) Refusal to provide health services

This is usually the first step that health workers make as a way to influence a patient to agree to a some form of corruption, which is often unavoidable situation for a patient. Refusal to provide medical services can have various forms, and one of them is putting a patient on a waiting list for a long period without any objective reasons, after which a patient decides to give money in order to be examined or medically treated in other way as soon possible. Also, doctors very often refuse to provide medical services at the workplace in the state health care institution, making a patient who is concerned about its health to accept a treatment in a private institution. In this case, there are elements of the offense of denying medical assistance, as well as malpractice.

d) Referring patients from state to private institution

This is one of the most prevalent forms of corruption in the health care system of Serbia, and very difficult to prove in criminal proceedings. It can be undoubtedly concluded that in this way health workers have built a parallel system of health care. It is a "well-coordinated" system in which a doctor refers the patient to a private health institution run by his colleagues or doctors who give him money for that "referral", and very often that is the clinic where he works or even owns it. It is the fact that state health institutions are not always able to provide all kinds of services and health care, however, this often happens even when state health institutions have possibility to provide the necessary service. In addition, it happens that physicians refuse to accept results of laboratory analysis of some private laboratories, and send patients to other laboratories from which they obviously receive money or other material benefits. For patients, "victims" of this form of corruption, doctors have in advance prepared business cards of private health institutions they "cooperate" with. For this type of corruption, the major problem of argumentation in criminal proceedings is patients' consent to the "recommendation", when patients at the first place want to cure themselves or their family member, thus becoming part of a parallel health system.

e) Link between health care workers and the pharmaceutical industry

Actions of this type of corruption are the advertising, promotion and recommendation of a doctor for use of a medicament which is a product of certain pharmaceutical companies, while the doctor receives the money or other benefit from that pharmaceutical company. Particular difficulty in this type of corruption are doctors who insist that patients use certain medications, regardless whether they are on the positive list or not. In addition, pharmaceutical companies pay the registration fee for the participation of doctors at scientific meetings.

This form of corruption, i.e. link between health care workers and the pharmaceutical industry, is recognized in the National Anti-Corruption Strategy⁸.

f) Wrongdoing in drug market and market of medical equipment

Additional difficulties are made by the pharmaceutical companies and the manufacturers and retailers of medical equipment. With the purpose of making a profit and achieving commercial interest, they commit a series of "frauds". Perhaps the most prominent type of this "fraud" is offering outdated medical equipment at a cost of modern equipment, with the aim of "emptying a warehouse" and reducing potential costs and losses that could be caused by impossibility of placing products on the market. Very often, the failure to disclose the actual quality of drugs and their adverse effects, makes the problem even more severe.

⁸ National Anti-Corruption Strategy for period 2013-2018, "Official Gazette of RS", nos. 57/2013. 3.7. Health a) Description of situation

4. SAFEGUARDS AGAINST CORRUPTION IN HEALTH CARE SYSTEM

It is clear that there is a shortfall in the system! Cases of corruption in the health sector are numerous and daily, while a number of judgments of the court that condemn health workers is negligible. Therefore, what goes in favor of misuse is the lack of clear procedures and a list of standard services; criteria and procedures for performing additional work, whose cash income is not return to the budget, but distributed to institutions and their employees (existence of so-called own revenues); imprecisely regulated relation of the pharmaceutical industry in terms of medical practice and training of health care employees; loosely regulated legal conditions that health care staff and associates in state institutions need to fulfill in order to provide health services in private institutions, etc⁹.

The issue of corruption needs to be observed from a security standpoint as well. Given that there is no institutional mechanism for its effective suppression, this phenomenon requires a coordinated and determined response of all security structures in society¹⁰. Additionally, an important mechanism for the combat against corruption in the health care system is the professional work of judicial bodies. However, that is not supported in practice, where justice can be seen as "disorganized box" that excludes the idea of an anti-corruption strategy that can be applied within its walls¹¹. Recognition of the health sector as the primary segment of society will contribute to the development of society as a whole, as well as better regulation of relations of state bodies. Court proceedings must be resolved urgently in order to emphasize the state readiness to vigorously and decisively combat the problem of corruption in the society, particularly in health care system as its most sensitive part. The experiences of developed countries can be a good example to follow.

5. EVALUATION OF RESEARCH RESULTS

Research on corruption in health care was conducted by the Center for Free Elections and Democracy in 2010 on the territory of Republic of Serbia¹². The results that have been reached allow us to conclude that the existence of corruption is at the level of "rumors", and that there are no significant direct knowledge and findings of the respondents. Also, a number of respondents who might have been involved in corrupt activities, does not consider that literally a corruption as a criminal offense, but rather as a symbolic gesture, particularly underlining that they were not under someone's, either direct or indirect, pressure. It is interesting that there are no significant differences in responses, depending on the age, sex, level of education and material status of respondents. Majority of the respondents thinks that reporting corrupt activities to the competent authorities is the best way to combat corruption and preventive act on its reduction, viz. patients themselves have to report any type of corruption. In addition to customs officers, doctors are profession which is generally believed to be the most corrupt. Health workers on the other side think that corruption in the health care system is not widespread, and that reasons why individuals resort to corrupt activities should be sought in poor working conditions, primarily in low-income, insufficient to meet basic human needs.

⁹ National Anti-Corruption Strategy for period 2013-2018, "Official Gazette of RS", nos. 57/2013. 3.7. Health a) Description of situation

¹⁰ Danilovic, N.: Contemporary security systems, Megatrend, Belgrade 2013. pg. 51.

¹¹ Petrus C. van Duyne, Elena Stocco, Jelena Dimitrijević: *From black box to a transparent public policy*, Victimology Society of Serbia, Belgrade, 2012

¹² Center for Free Election and Democracy: Corruption in Health care, 2010

Chart 1¹³

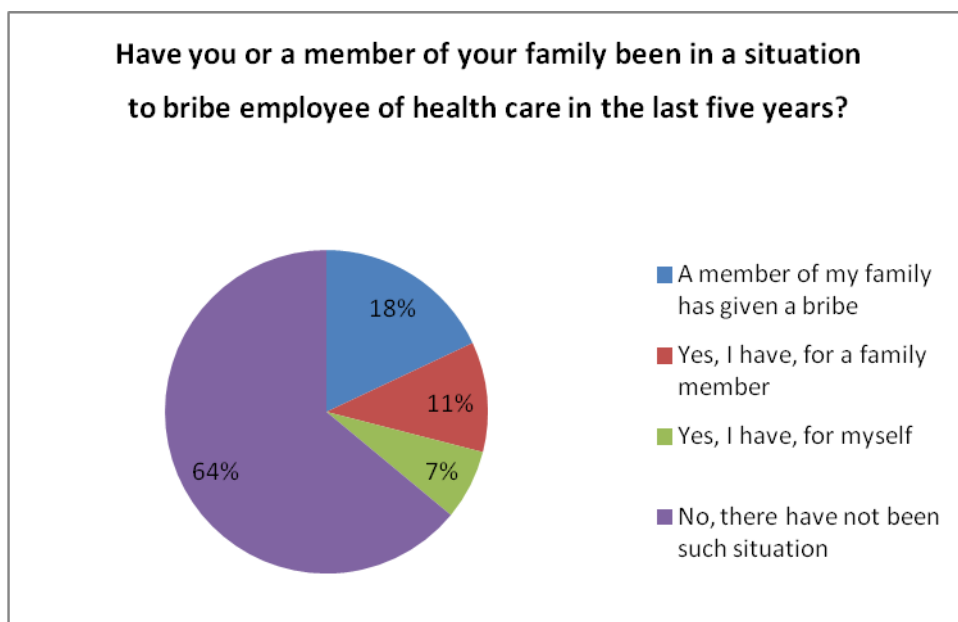
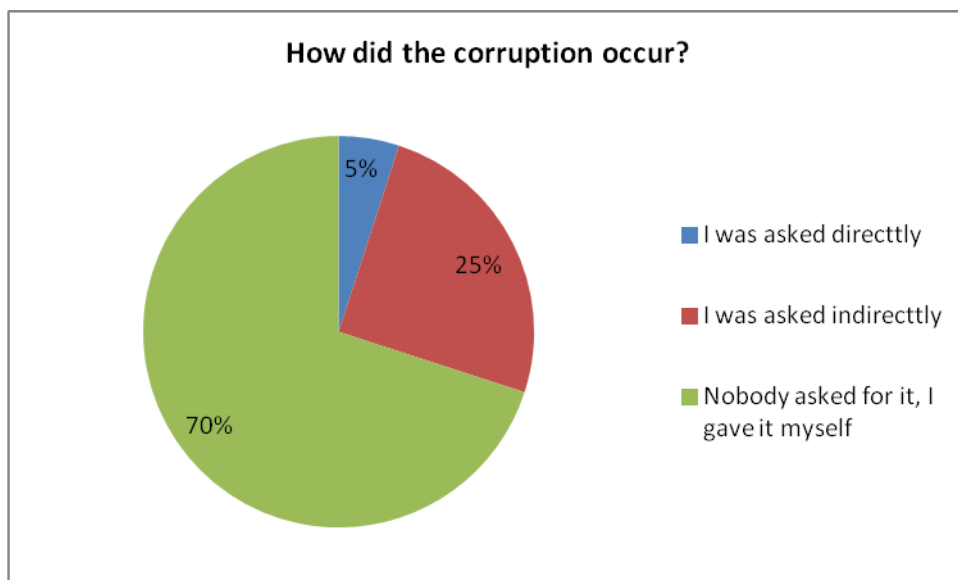


Chart 2¹⁴



¹³ Center for Free Election and Democracy: Corruption in Health care, 2010

¹⁴ Center for Free Election and Democracy: Corruption in Health care, 2010

Chart 3¹⁵

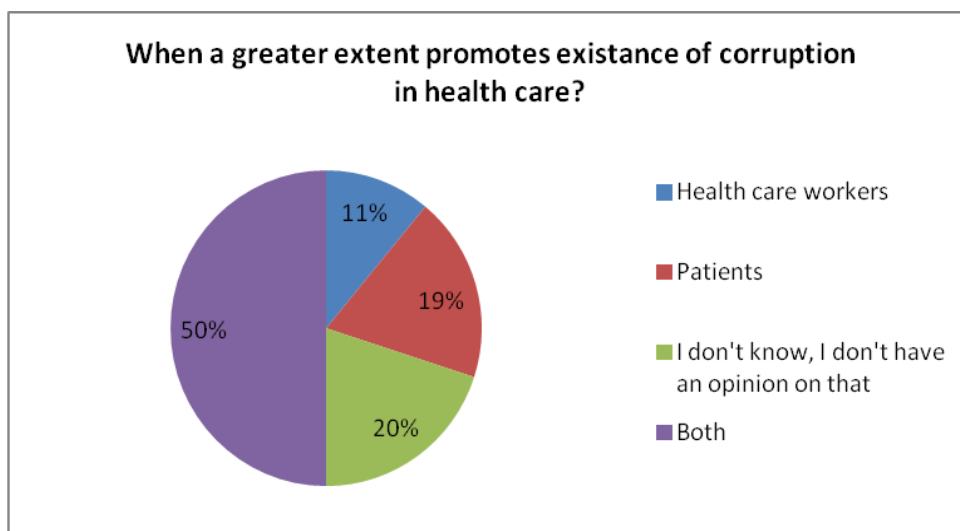
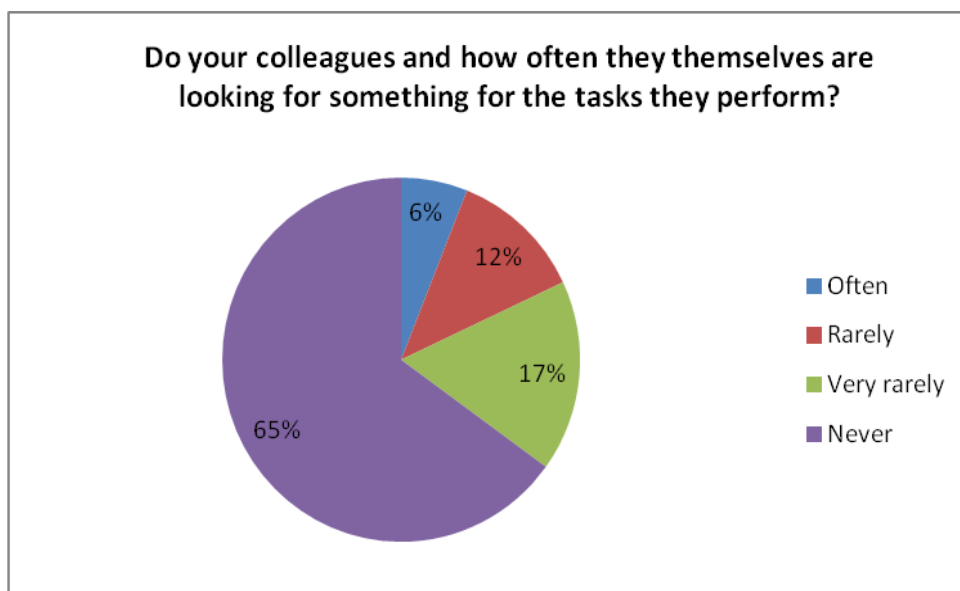


Chart 4¹⁶



6. CONCLUSION

Being a health care worker has always been considered as the most humane profession in society. Based on numerous indicators, it can be concluded that medical profession in Serbia is, for a number of health workers, an opportunity for acquiring material gain, violating basic human values, principles of humanity and the law above all. The consequences of such actions are not only reflected in causing damage to individuals, but also to society as a whole. System corruption in health care, at the first place, makes the path of Serbia into the EU more difficult.

¹⁵ Center for free Election and Democracy: Corruption in Health care, 2010

¹⁶ Center for free Election and Democracy: Corruption in Health care, 2010

Accession of Serbia to the EU would solve the pressing economic problems and enhance the development of the whole society, including the health care system.

Further on, it can be concluded that the specific types of corruption in the health care system harm the budget of Serbia. Particular damage is reflected in the "takeover" of patients from state institutions into the situation to spend money in private health institutions. As a consequence, money that could be used for the development of the health care system, is spent for the development of private health care institutions whose owners are mainly corrupt doctors. Finally, poorer level of health care slows down the economic development of society. I think that the fight against corruption is always a fight for a country. Despite the fact that there are a lot of questionable fighters whose "mouths are full of the country".

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MANAGING THE INFLUENCE OF SALES PROMOTION IN THE TERMS OF STATE RECESSION ON BUYING BEHAVIOR OF CONSUMERS

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ABSTRACT

The importance of this paper is to determine a managing course and the intensity of the impact of price reduction for food products onto consumers' behavioral responses. The following responses such as brand loyalty, brand switching, and purchase acceleration, stockpiling and product trial have been analyzed in this paper. The recession in Serbian economy, that has been present over the course of several years, has had a significant impact on the behavior of consumers in a way that consumers are buying more products at sales. According to the research results of certain authors, retailers have used price sales as the most popular and often the most stimulating instrument of short term demand, and it has seen an increase ever since. Following the analysis of scientific literature that has covered this particular subject matter, three hypothesis regarding the impact of price reduction onto behavioral responses of consumers have been defined. An empirical research in order to test the hypotheses has been carried out over the sample of 100 consumers.

Keywords: *price reduction, buying behavior*

1. INTRODUCTION

In the last few years, we can see that companies spend enormous financial means on promotional activities in order to motivate buyers to purchase their products. This paper will examine the impact of price reduction, as one of sales promotion techniques onto behavioral responses of consumers. It is important to emphasize that research shows that price reductions mostly, and sometimes even exclusively, impact consumer responses (Ndubisi, 2006, pp.47). The recession in economy, that has been present over the course of several years, certainly impacts the behavior of consumers in a way that they are buying more and more products during price reductions, in such a manner realizing maximum benefit for spent money. Neslin, Henderson and Quelch (1985, pp.150) define price reduction as a sales promotion technique which is focused directly on consumers, and therefore it represents a reduction of the basic product price. Krishna, Currim and Shoemaker (1991, pp.4) define price reduction as a temporary reduction of product price. Price reduction is usually time determined and limited. Time limitation of price reduction serves as an additional motive, i.e. stimulation, which should motivate consumers to as soon as possible reach a decision about the purchase. Retailers, once applying price reductions as a sales promotion techniques, are mostly guided by logic according to which sale is bigger and faster as the percentage of price reduction for each

product is higher, therefore it is not surprising that retailers use these techniques more and more often. Behavioral responses of consumers (conative attitude component) represent the possibility or tendency that an individual will conduct a certain action or that it will behave in a certain way depending on the object of an attitude, and this means that the conative component is often treated as an expression of consumers purchasing intention. The emphasis of this research is on following consumer responses: brand loyalty, brand switching, purchase of products before it was even planned (purchase acceleration), purchase of bigger quantity of the same product (stockpiling), purchase of product that has not been tried before (product trial). This paper is deepening current knowledge about the subject matter. The research was conducted on the Serbian market, where this topic has not yet been approached in a sufficient manner.

2. REFERENCE SCIENTIFIC DATA

Subject of this paper is managing the influence of sales promotion on buying behavior of consumers, but in order to better comprehend the related subject it is important to emphasize that nowadays consumers are faced with different types of price reductions: catalogue price reductions, weekly price reductions, price reductions for retired people etc. While indicating the significance of researches about price reductions onto behavioral responses of consumers, it was mentioned that some researches show that price reductions mostly and sometimes even exclusively impacts the behavior of consumers. (Martinez-Ruiz, Descals, 2008, pp.509) It's indicated that price reduction applied by retailers is the most popular and mostly used instrument for stimulating short term demand and its usage is increasing every year. Darke and Chung (2005, pp.42) treat behavioral responses of consumers as a reflection of purchasing intention. Hoek and Roelants (1991, pp.5) emphasize the key role of price reduction for stimulating consumer behavioral responses in a form of brand switching, purchase acceleration and additional consumption. Obeid (2014, pp.28) quotes that price reduction effectively impacts consumer responses during shopping and this impact becomes clear throughout early shopping and new product trial. Darke and Chung suggest that price reductions are more effective in encouraging faster shopping, stockpiling and bigger consumption while they are less effective in encouraging consumers to new product trial and brand switching. Alvarez and Casielles (2005, pp.60) investigated the impact of price reductions on brand switching, purchased quantities and time of purchase, suggesting that price reductions only temporarily provoke brand switching i.e. that consumers after a certain period of time return to their initial choice of products. Teunter and Teunter (2004, pp.2) indicate that price reductions are useful only as a short term stimulant and that in a long term these activities damage companies by creating worse consumer perception regarding quality of products, which at the same time decreases consumers purchasing intention. Still, Sahay and Sharma (2010, pp.16) quote that price reductions are most often used instruments for stimulation of demand and that they result in an increase of consumers perception of value and consumers purchasing intentions, but on the other hand, in a long term, they decrease consumers perception regarding product quality and it is assumed that this has negative effect on purchasing intentions pertaining to a certain product. Darke and Chung points out a fact that price reductions do not have an unambiguous impact on the intention to choose a product brand, i.e. on the purchase of certain product and that this impact is different depending on the price level of certain brand and that for more expensive brands price reductions have negative results on behavioral (purchasing) intentions, while for less expensive brands price reductions have positive effects on behavioral intentions. Results of the study conducted by Vilcassim and Jain (1991, pp.30) indicate that price reductions have bigger impact on the percentage of brand switching then on the percentage of repeated purchase. Alvarez and Casielles (2005, pp.61) explains that consumers are very much aware of the effect of stockpiling (without the actual need) caused by a significant price

reductions, and therefore, as promotions (sales) are more frequent, price reductions should be bigger in order for the consumer to realize a benefit from purchasing an additional product unit. It can be concluded as well that price reductions are most used activities on the market of final consumption with the main goal of keeping existing consumers by stimulating them to repeat their purchase, but also by stimulating consumers to make their first purchase. Vilcassim and Jain emphasize that consumers adjust their responses depending on expected dynamic of price change in a way that they can accelerate their purchase of a certain product and create a stock of products while the prices are low in order to use them in the future. Obeid (2014, pp.28) researches focus on temporary price reductions and confirms that temporary price reductions increase the sale of brands which are on sale, especially during weekends. Some brands realize sale by impacting brand switching in the same subcategory of products, but also and by brand switching of competitive items from other categories which are a bit different in structure and taste. Hoek and Roelants (1991, pp.5) researched the impact of price reductions on purchasing decision in a household bearing in mind price expectations in the future, and they came to a conclusion that once consumers detect price reductions of certain brand in a current time period, they will also expect for future prices to be low, which will result in lower attraction in regard of current price reductions or, on the other hand, they will expect higher prices in the future and current price reductions will be attractive for them and stimulating in regard of purchase i.e. purchase acceleration. Guo and Villas-Boas (2007) emphasizes that promotions (sales) result in bigger quantity of purchased products but it's especially mentioned that advertised price reductions cause the following purchase to be made faster i.e. they result in shorter time period between two shopping terms. Zhang, Seetharaman and Narasimhan (2012) point out that the extent of price change plays a significant role in consumers responses during shopping, while bigger reductions result in brand switching. Swani and Yoo (2010) point out a significant role of price reductions in a frame of their impact on consumers regarding new product trial. Obeid (2014, pp.28) suggest that consumer responses, regarding product brand and purchased quantities, depend on expected time period until the following price reduction, but also in case of an expected extend of price reduction. If consumers perceive a brand as one that's often on sale, then they will not feel the need for stockpiling i.e. their next shopping will not happen earlier then it was initially planned. Frequent sales (promotions) of their favorite product brands often can result in consumers disregard for those sales and provoke consumers to prefer other brands in the future.

Based on the analyses of reference material, following hypotheses are being determined:

H1. Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the gender of examinees.

H2. Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the age of examinees.

H3. Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the income of examinees.

3. RESEARCH METHODOLOGY

Theoretical frame of this research was made by gathering secondary source of data (desk research) by collecting existing information and knowledge from relevant literature. The empirical research has been conducted on a sample of 100 consumers, while data has been gathered in the field. Research was focused on consumers of food products in one bigger format shop (hypermarket) in the city of Smederevo. The applied sample has characteristics of a natural sample considering the fact that chosen consumers were the ones already available at

the shop during the time the data was collected. Investigating instrument consists of a group of statements and examinees were asked to express the intensity of their agreement or disagreement with the offered statements. In conducting the investigation, Likert scale of five points of intensity was applied (1 - I do not agree at all, 5 - I completely agree). In forming a sample, gender and age structure was taken into account, as well as equal representation according to an average monthly income.¹ Data was gathered by interviewing at a point of sale and by applying MALL-INTERCEPT concept.²

Popularity of this investigating method increases as a result of low costs of conduction, it approaches a large number of people, it provides a large quantity of return answers (feedback) and it provides instantaneous results of investigation. Results of this research cannot be generalized because of the existence of certain limitations. First, only behavioral component of consumer behavior was subject of a research, and it is important to emphasize that simultaneously also cognitive and affective components impact responses of consumers. Further, the research was conducted only on one convenient sample using only mall-intercept method.

Research statements were: T1: Price reduction will enable me to purchase brand/product which I do not usually purchase; T2: I usually purchase the same brand/product, even when the other brand/product is on sale; T3: Price reduction enables me to purchase product even earlier than initially planned; T4: Price reduction enables me to purchase bigger quantities of the same product; T5: Price reduction enables me to purchase product that I never tested before.

Software tools such as MS Excel (Office 2007 version, Microsoft Corporation, Redmond, WA, USA) and SPSS for Windows (17.0 version, SPSS Inc. Chicago, Illinois, SAD) have been used to process collected data and information. Arithmetic Means (M) and Standard Deviation (SD) have been applied to calculate data. However, both t-test for independent samples as well as ANOVA along with post hoc tests have been used in order to conduct testing over the significance of difference in average estimation of certain thesis with regard to sample characteristics. A significance level of testing equals to $p=0,05$ (5%) i.e. a conclusion has been made with 95% certainty. P values that could not have been expressed with three decimal places have been shown as $<0,001$.

4. RESEARCH RESULTS

Characteristics of examinees are shown in Table 1.

Table following on the next page

¹ Percentage of consumers with income up to 31.000 RSD was 17%, from 31.000 to 60.000 RSD was 36%, from 61.000 to 90.000 RSD was 28%, from 91.000 to 120.000 RSD was 12% and with an income over 120.000 RSD was 7%.

² A mall-intercept concept is a survey whereby respondents are intercepted in shopping malls or other public space. The process involves stopping shoppers, screening them for appropriateness, and either administering a survey (or interview) on the spot or inviting them to a research facility located in the mall to complete the interview.

Table 1: *Sample characteristics*

Characteristics		f	%
Gender	Female	57	57,0%
	Male	43	43,0%
Age	≤ 30	14	14,0%
	31 - 40	20	20,0%
	41 - 50	25	25,0%
	51 – 60	23	23,0%
	>60	18	18,0%
Income	≤ 30.000 RSD	17	17,0%
	31.000 – 60.000 RSD	36	36,0%
	61.000-90.000 RSD	28	28,0%
	91.000-120.000 RSD	12	12,0%
	>120.000 RSD	7	7,0%

Means of statements for the overall sample has been displayed in Table 2.

Table 2: *Means of statements for the overall sample*

Statements	M	SD	Min	Max
T1	3,28	1,036	1	5
T2	3,40	0,888	2	5
T3	3,96	0,898	1	5
T4	3,98	0,995	1	5
T5	2,70	0,859	2	5

Results of the research displayed in Table 2. indicate that the majority of participants (consumers) claims that price reduction most times helps them to purchase bigger quantities of the same product, thus encouraging them to buy a product before planning. At the same time, the price reduction affects product testing the least. It is interesting to emphasize that research

results show that no consumer rated T2 and T5 statements with the rating 1, as this means that there is not a consumer who is completely against the mentioned statements.

Comparison of means of statements according to gender of participants has been displayed in Table 3.

Table 3: *Comparative means of statements according to participants' gender*

Statements	Gender	M	SD	P*
T1	Female	Female	,847	,062
	Male	3,05	1,214	
T2	Female	3,26	,813	,076
	Male	3,58	,957	
T3	Male	4,05	,789	,237
	Female	3,84	1,022	
T4	Male	4,11	,859	,165
	Female	3,81	1,139	
T5	Female	2,75	,912	,469
	Male	2,63	,787	
	Male	2,63	,787	

*t test for independent samples

Statistically, a significant difference in statements of both women and men has not been found with any of the statements. Hypothesis H1 - Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the gender of examinees - is not being accepted. However results of the research displayed in Table 3 show that women are more inclined to agree with statements T1, T3, T4 and T5, while men tend to agree with statement T2 more. To be more precise, this means that women think more that price reduction will allow them to purchase brand they usually would not opt for, to purchase prior to planning, to purchase bigger quantities of the same product and to purchase product they have not yet tried. However, men tend to buy the same brand more than women, even though another brand is on sale.

Speaking of comparison of means of statements according to the age factor of participants (shown in table 4), statistically significant difference in opinions of participants with different age group has been determined with the first 4 statements. Hypothesis H2 – Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the age of examinees – its being accepted, but it is important to emphasize that there is no

significant difference between attitudes of examinees when the impact of price reduction onto product trial is in question.

Post hoc tests show there is difference with the following groups:

- T1: age groups 1 and 5, 2 and 5, 3 and 5, 4 and 5 differ.
- T2: age groups 1 and 5, 2 and 5, 3 and 5 differ.
- T3: age groups 1 and 4, 1 and 5, 2 and 4, 2 and 5 differ.
- T4: age groups 2 and 4 differ.

Results of the research show that consumers older than 60 agree with T1 the most i.e. they think that price reduction will allow them to purchase brand they usually don't opt for. Age group 51-60 follows along, etc. Consumer category up to 30 years of age mostly agree with T2 i.e. they usually purchase the same brand even if another brand is on sale. The results point to the fact that older age groups agree less with this thesis i.e. they are rather less loyal to the same brand. Research results depending on the age of examinees suggest that consumers over 50 years of age considerably more agree with the statement T3 in comparison to younger consumers, which at the same time means that in case of price reductions much more consumers over the age of 50, than consumers up to the age of 50, will purchase products earlier than planned. Research results depending on the gender of examinees, taken in consideration T4, suggest that the biggest difference is in agreement, i.e. in disagreement of consumers between the age group of 51-60 years of age and younger consumers of the age groups up to 40 years, which means that examinees of older age groups decide more to purchase bigger quantities of products than examinees of younger age groups.

Table 4: Comparison of means of statements according to the age factor of participants
(Table ends on the next page)

Statements	Age	M	SD	Min	Max	P*
T1	≤ 30	3,14	,864	2	5	<0,001
	31 - 40	2,85	1,089	1	4	
	41 – 50	2,92	,812	1	4	
	51 – 60	3,35	1,027	1	5	
	>60	4,28	,752	3	5	
T2	≤ 30	3,71	1,069	2	5	0,003
	31 - 40	3,70	1,081	2	5	
	41 - 50	3,60	,645	3	5	
	51 - 60	3,22	,736	2	4	

	> 60	> 60	,647	2	4	
T3	≤ 30	≤ 30	,756	2	5	<0,001
	31 - 40	31 - 40	1,046	1	5	
	41 - 50	41 - 50	,850	2	5	
	51 - 60	51 - 60	,593	3	5	
	> 60	> 60	,698	3	5	
T4	≤ 30	≤ 30	,855	2	5	0,009
	31 - 40	31 - 40	1,192	1	5	
	41 - 50	41 - 50	,954	2	5	
	51 - 60	4,35	,714	3	5	
	> 60	4,28	,958	2	5	
T5	≤ 30	2,79	,975	2	5	0,164
	31 - 40	2,35	,587	2	4	
	41 - 50	2,60	,645	2	4	
	51 - 60	2,83	,937	2	5	
	> 60	3,00	1,085	2	5	

*ANOVA

Table 5: Comparison of means of statements according to income of participants
 (Table ends on the next page)

Statemens	Income	M	SD	Min	Max	P*
T1	≤ 30.000 RSD	4,12	,781	3	5	0,001
	31. 000 DIN-60.000 RSD	3,33	,986	1	5	
	61.000-90.000 RSD	-3,04	,838	2	4	
	91.000-120.000 RSD	3,00	1,044	1	4	
	>120.000 RSD	2,43	1,397	1	5	
	≤30. 000 RSD	2,88	,697	2	4	
	31.000-60.000 RSD	3,25	,806	2	5	

T2	61.000-90.000 RSD	3,61	,786	2	5	0,005
	91.000-120.000 RSD	3,67	,985	2	5	
	> 120.000 RSD	4,14	1,215	2	5	
T3	<=30. 000 RSD	4,35	,702	3	5	0,065
	31.000-60.000 RSD	4,03	,810	2	5	
	61.000-90.000 RSD	3,93	,766	2	5	
	91.000-120.000 RSD	3,67	1,303	1	5	
	> 120.000 RSD	3,29	1,113	2	5	
T4	<= 30.000 RSD	4,35	,862	2	5	0,060
	31. 000 DIN-60.000 RSD	4,03	1,000	2	5	
	61.000-90.000 RSD	4,37	,900	2	5	
	91.000-120.000 RSD	3,50	1,087	1	5	
	>120.000 RSD <=30. 000 RSD	3,29 2,76	1,113 ,970	2 2	5 5	
T5	31. 000 DIN-60.000 RSD	2,72	,849	2	5	0,976
	61.000-90.000 RSD 91.000-120.000 RSD	2,61 2,75	,737 ,965	2 2	4 5	
	>120.000 RSD	2,71	1,113	2	5	

*ANOVA

Statistically significant difference in thesis of participants with different income has been determined within the first 2 statements. Hypothesis H3 – Attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers (brand switching, brand loyalty, purchase acceleration, stockpiling and product trial) depend on the income of examinees - it is being accepted for statements T1 and T2, while the same cannot be emphasized for the remaining statements T3, T4 and T5, and that means that this hypothesis is being partially confirmed.

Post hoc tests show that there is a difference with the following groups:

- T1: age groups 1 and 2, 1 and 3, 1 and 4, 1 and 5 differ.
- T2: age groups 1 and 3, 1 and 5 differ.

Results of the research clearly show that consumers with less than 30.000 RSD. income are most inclined to think that price reduction allows them to purchase products they usually don't opt for when buying. However, consumers with bigger income think that this statement is rather irrelevant. Statement T2 shows opposite results i.e. consumers with highest income usually buy

the same brand of products i.e. they are the most loyal to the brand. However, consumers with lowest income show lesser loyalty to the same brand.

5. CONCLUSION

The importance of this paper is in the contribution to further deepening of the knowledge about the impact of price reduction on to behavioral responses of consumers on the market of Serbia, particularly from the city of Smederevo, as this subject matter has not yet been approached in a sufficient manner. By applying adequate methods, research results partially confirmed determined hypotheses about the impact of price reduction on to behavioral responses of consumers. To be precise, attitudes of examinees regarding the impact of price reduction onto behavioral responses do not significantly depend on the gender of examinees. However, they do depend on the age of examinees (except for the product trial). Further more, attitudes of examinees regarding the impact of price reduction onto behavioral responses of consumers, brand switching and brand loyalty - depend on the income of examinees, but at the same time, purchase acceleration, stockpiling and product trial - do not depend on the income of examinees. From these research results it is evident that price reduction has a significant impact on to consumer behavior and that retailers increasingly use this way of promotion in their operation activities. Those findings facilitate managing process with aim to influence buying behavior of consumers, but it should be emphasized that frequent use of price reduction besides positive effects achieved in a short term period, can have negative implications in a long term, primarily because of the aggravation of perceived quality of company's product and brand image, as well as not realizing the satisfactory profit.

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SUSPENDED SENTENCE WITH PROTECTIVE CUSTODY

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ABSTRACT

The subject matter of this paper is alternative criminal sanctions that are considered to be the future of Serbian penal policy, due to the fact that their primary aim is to achieve high level of offenders' reintegration in society. It is not only Serbia, but its neighboring countries as well that face this problem of finding out new and efficient sanctions. In the paper it has been pointed out to the efficiency of suspended sentence and its special modality – suspended sentence with protective custody. The implementation of this sanction throughout the period of 10 years is analyzed in the paper. Furthermore, the paper describes both advantages and disadvantages of this sanction and the reasons for its poor implementation are explained. In addition, the authors give suggestion how to increase the implementation of this cautionary measure. Finally, some directions of the development of suspended sentence with protective custody as a very significant admonitory measure are presented.

Keywords: *criminal sanctions, offenders' reintegration in society, suspended sentence with protective custody*

1. THE CONCEPT AND PURPOSE OF SUSPENDED SENTENCE WITH PROTECTIVE CUSTODY

Suspended sentence with protective custody was introduced in our criminal law in 1976.¹ This measure was not entirely new to our criminal law, because the Criminal Code of Yugoslavia from 1929 prescribed imposing supervision not only upon conditionally sentenced offenders but also persons released from penal institutions or prison, from safety institution, and from correctional facilities. However, the mentioned legal solution, in that time, remained as a dead letter due to the lack of human, organizational and space resources. In the Law on Amendments and Supplements to the Criminal Code from 1959 protective custody was determined as a measure only for younger offenders of full age. Therefore, the measure of intensified supervision of guardianship authorities was imposed only in case that a felony was committed by a person of full age who did not attain the age of 21 at the time of trial. This can be taken as the first step towards introduction of protective custody in our legislation since a guardianship authority attended to the education, employment, the impact of the environment where a conditionally sentenced offender lived, his health welfare, settling the living conditions of the conditionally sentenced offender etc.² Finally, thanks to Article 58 of the Criminal Code of SFRY from 1976 suspended sentence with protective custody gained importance in criminal legislation of our country. In contemporary criminal law protective custody is an integral part of suspended sentence. The reason for such a trend lies in tendency not to leave conditionally sentenced offenders on their own, but during their probationary period, while at freedom, to

¹ „Criminal Code of SFRY“, Official Journal of SFRY, no. 44/76.

² „Criminal Code of FNRJ“, Official Journal of FNRJ, no. 30/59.

impose help and supervision of experts upon them. By introducing protective custody as a supplementary part of suspended sentence results in this sanction not being too much repressive, but also not on the verge of a common threat of punishment. All the offenders, i.e. convicted persons, according to the present research, may be divided into two categories. The first category consists of convicted persons conditionally released who do not need any help to deter them from reoffending on probation. Those are the kind of people for whom an admonition with the threat of punishment will have sufficient effect to deter them from further commission of criminal offences and it is completely sufficient for their reintegration in society and to achieve the purpose of punishment. The second category consists of convicted persons conditionally released for whom it is estimated that the purpose of punishment can be achieved by suspended sentence, thus no penalty is imposed, but those offenders have to receive adequate assistance, protection or supervision. Those offenders need to be put under protective custody which reduces the risk of reoffending, and at least puts them in equal position as those offenders who have a common suspended sentence, i.e. only suspended sentence with no protective custody. According to the current regulations on the territory of the Republic of Serbia „the court may order that an offender who has suspended sentence shall be placed under protective custody for a certain period of time during probationary time. If during protective custody the court determines that the objective of such measure has been achieved, it may end the protective custody before the expiry of the specified period. If the convicted person under protective measures fails to fulfill the obligations ordered by the court, the court may caution him or replace the previously ordered obligation by another or extend the duration of protective custody within the probationary period or revoke suspended sentence.“³ Article 72 of Criminal Code of the Republic of Serbia contains conditions for deciding upon protective custody. „ When pronouncing suspended sentence, the court may order protective custody of the offender if, considering his personality, previous conduct, behavior after committing of the offence and particularly his attitude towards the victim of the offence and circumstance of its commission, it may be assumed that protective custody would enhance achieving the purpose of suspended sentence.“⁴ Protective custody may comprise one or more of the following obligations:

- 1) reporting to competent authority for enforcement of protective custody within periods set by such authority;
- 2) training of the offender for a particular profession;
- 3) accepting employment consistent with the offender’s abilities;
- 4) fulfillment of the obligation to support family, care and raising of children and other family duties;
- 5) refraining from visiting particular places, establishment or events if that may present an opportunity or incentive to re-commit criminal offences;
- 6) timely notification of the change of residence, address or place of work;
- 7) refraining from drug and alcohol abuse;
- 8) treatment in a competent medical institution;
- 9) visiting particular professional and other counselling centres or institutions and adhering to their instructions;
- 10) eliminating or mitigating the damage caused by the offence, particularly reconciliation with the victim of the offence.“⁵

³ „The Criminal Code of the Republic of Serbia“, http://www.paragraf.rs/propisi/krivicni_zakonik.html accessed on 12 Feb. 2017.

⁴ „The Criminal Code“, The Official Gazette of the Republic of Serbia, no. 85/2005, 88/2005 - corr., 107/2005 - corr., 72/2009, 111/2009, 121/2012, 104/2013 and 108/2014 Article 72.

⁵ „The Criminal Procedure Code“, The Official Gazette of the Republic of Serbia, no. 85/2005, 88/2005 - corr., 107/2005 - corr., 72/2009, 111/2009, 121/2012, 104/2013 and 108/2014 Article 73.

In selecting the obligations of protective custody the law has envisaged plentiful choice of various measures aimed at adjusting the sanction to an individual, whose purpose is to help a conditionally released offender.⁶

In selecting the obligations, the court shall particularly have regard to the age of an offender, his health, affinities and habits, motives from which he committed the offence, conduct after commission of the offence, earlier conduct, personal and family situation, ability to meet the ordered obligations as well as other circumstances pertinent to the personality of the offender which bear relevance to the selection of the measures for protective custody and duration thereof.

Duration of protective custody measures is set within the probationary period determined in suspended sentence, and if during protective custody the court determines that the objective of such measure has been achieved, it may end protective custody before the expiry of the specified period. Protective custody shall not be necessarily associated only with suspended sentence. It is a measure that may be applied in case of parole and correctional measures. Some research should be conducted in that direction and it is our opinion that sanctions and measures combined in this manner may have excellent results.

2. THE ROLE OF A CUSTODIAN IN THE EXECUTION OF SUSPENDED SENTENCE WITH PROTECTIVE CUSTODY

Suspended sentence with protective custody is organized, executed and supervised by the Department for Treatment and Alternative Sanctions that operates within the Administration for the Execution of Criminal Sanctions, attached to the Ministry of Justice.

For the execution of suspended sentence with protective custody the Custodian shall be designated by a ruling of the director of the Administration upon the proposal of the head of the Department for Treatment and Alternative Sanctions.

Regulations on the execution of non-institutional sanctions and measures and organization and work of a Custodian regulate the status of a Custodian, terms and ways of his appointment, authorities, working procedures, responsibilities, liabilities and register of Custodians.⁷

A Custodian is appointed according to his place of residence, i.e. residence of the offender and is authorized to establish and maintain contact with the offender, his family or people close to him. „A person appointed for a Custodian is obliged within three days of receiving the court decision to start preparation for executing the decision, and within the period of 15 days of receiving the decision and conducting an interview with the offender to define a program of the execution of suspended sentence with protective custody.“⁸

Protective custody conducted by a Custodian is executed through a Program of Conducting Protective Custody which is most commonly realized in a local community in cooperation with other public authorities, organizations, institutions, employers, local-governments, family and people close to the offender. In addition, in order to conduct protective custody the Custodian works together with the court, the authorities of home affairs, health care and social protection facilities, employer and other institutions, organizations and associations.

„A special individual program is drawn up for every offender under suspended sentence according to the obligations and deadlines set forth in a judgment, personal characteristics of the offender, his social circumstances, health, abilities, acquired knowledge, level of expertise,

⁶ See more: Presuda Okružnog suda u Nišu, K.131/06 i presuda Vrhovnog suda Srbije u Beogradu, Kž. I.197/08 - Bilten Okružnog suda u Nišu, br. 29/2009, Intermex, Beograd.

⁷ „Regulations on conducting suspended sentence with protective custody“, The Official Gazette, Belgrade no. 20/2008 regulated the work of a commissioner until 2015 when it was replaced by „Regulations on execution of non-institutional sanctions and measures and organization and work of a Custodian“, The Official Gazette of the Republic of Serbia, no. 30/2015 od 27. March 2015

⁸ www.vk.sud.rs accessed on 2 Feb. 2017.

employment, and other circumstances. A Custodian conducts the activities outlined by the program in direct contact with the offender at least once a month, and if necessary more often.”⁹ While implementing the program for suspended sentence with protective custody some unpredicted situations may occur that are hindering program implementation according to the plan, which is immediately reported to the court and the Department of Treatment and Alternative Sanction by a Custodian. In case of disaccord between a Custodian and an offender under suspended sentence, the offender has right to make a complaint to the director of Administration about the Custodian's work. The offender's complaint has to include specific statements of the Custodian's treatment or lack of treatment while conducting protective custody that have an impact on the realization of the program. The stated complaint of the offender is delivered to the Custodian who is then obliged to address the statements in the complaint within three days in written. The director of Administration decides about the complaint within eight days of receiving the complaint. In order to have suspended sentence with protective custody implemented successfully the offender has to report to the competent authority periodically at exact predetermined intervals and precisely determined place. If the offender under suspended sentence has an obligation to attend school regularly or part-time, or some technical training or acquire skills, the Custodian monitors this type of activity and makes notes about it. In order to protect and monitor, but also to help the offender under suspended sentence, in cooperation with the employment services the Custodian searches for an adequate job which the offender under suspended sentence is obliged to accept. Apart from the National Employment Service, the Custodian is in contact with social protection facilities and the family members of the offender under suspended sentence in order to realize more effectively protective custody and the obligations set forth within it. In addition, the Custodian's advisory work is intended to discourage the offender from visiting certain places, bars, or events that may present an opportunity or incentive for reoffending, as well as to prevent him from misuse of psychoactive substances and to make the offender become aware of their harmful effect for him and his environment. For the sake of good cooperation and unhindered implementation of suspended sentence with protective custody the offender is obliged to inform the Custodian within three days about the change of his residence, address or job. The Custodian encourages the offender to take part in the treatment in an adequate counseling center or institution and monitors the treatment through regular contact with experts and provides assistance to the offender in recovery process and monitors the process through regular cooperation with appropriate health welfare authorities. Finally, the Custodian has an important role in intermediating between the offender and the victim of the offence for the purpose of indemnification and establishing good relations. Within 15 days of the expiry of custody the Custodian submits a final report to the court and Department. After a certain period of time, the Custodian submits a report to the court suggesting abolishment or replacement of the offender's obligations.

⁹ Ibid. (The outlined program contains: 1. Personal data of the defender; 2. The plan of the activities that the Custodian will undertake while executing protective custody and the frequency of contacting the offender; 3. Type, manner and deadlines of the realization of the offender's obligations ; 5. The plan of cooperation with institutions and organizations, and individuals involved in the program implementation ; 6. The plan of cooperation with the victim of the offence and the manner of the victim's involvement into the program with an aim to eliminate or mitigate the damage inflicted by the offence and reconcile the victim with the offender.)

3. THE FUTURE OF SUSPENDED SENTENCE IN THE REPUBLIC OF SERBIA

Further to ten-year experience in implementation of this penalty and the research conducted by the authors of the paper we come to logical and legal conclusion that the future orientation of imposing criminal sanctions is towards implementation of suspended sentence with protective custody. However, suspended sentence with protective custody has not been fully used in the Republic of Serbia and in some surrounding countries. It is best demonstrated by the data collected by The Administration for the Execution of Criminal Sanctions, its special Department for Treatment and Alternative Sanctions.

In the period from 2006 when the implementation of this cautionary measure started until the end of 2015, 158 suspended sentences with protective custody were imposed in total.

Thus, from 2006 to 2013 altogether 155986 suspended sentences were pronounced, while only 88 out of them were suspended sentences with protective custody. It makes just 0.056% of the total number of pronounced suspended sentences.

This can be represented with a diagram in the following way:



Graph1: The number of pronounced suspended sentences with protective custody for the period 2006-2013

According to the Register of the Department for Treatment and Alternative Sanctions it can be noticed that in the period of ten years, during which the Department exists as an operational unit within The Administration for the Execution of Criminal Sanctions, only 158 offenders had protective custody.

From 2006 to 2012 on the territory of the whole Republic of Serbia only 59 suspended sentences with protective custody were pronounced. As there are no precise data on how many suspended sentences with protective custody were pronounced per year, it can be concluded that on average for this six-year period about ten suspended sentences with protective custody were pronounced per year.

Out of the total number of 59, 20 suspended sentences with protective custody were successfully executed. 25 of them were not executed because of bar of limitation, but not because of inefficiency of the personnel of the Department for Treatment and Alternative Sanctions but because of the lack of organizational capacities. In fact, at the beginning when their departments were being set up the territory of the Republic of Serbia was not wholly covered with Custodian Offices. Six suspended sentences with protective custody were turned into imprisonment sentence, while there is no information about the outcome of eight suspended sentences with protective custody, since they were executed outside Belgrade, but the documentation from other towns still has not been completed.

Suspended sentence with protective custody as a sanction in 2012 was imposed in 23 cases. More than a half of that number, i.e. 13 suspended sentences with protective custody were

executed successfully. While serving the sentence one convicted person died, while in seven cases the sanction was not imposed because of bar of limitation, due to the fact there were no offices established in Cacak and Nis at the time, which made it difficult to impose the sanction. Out of the total number of suspended sentences with protective custody three measures are still active.

The following year, in 2013, 29 suspended sentences with protective custody were imposed. Seven suspended sentences with protective custody were successfully executed, while three were not because of bar of limitation. It was again due to organizational issues. In 2013 one suspended sentence with protective custody was revoked and turned into imprisonment sentence, while in four cases of suspended sentences the Custodian wrote emergency reports, so the sentences were revoked. In this year there were also suspended sentences with protective custody whose check took longer time so there are still nine active suspended sentences with protective custody. For five of them there are still no data, as they are executed outside the territory of Belgrade.

In 2014, 27 suspended sentences with protective custody were imposed, out of which three were successfully implemented. 12 are still active, while only one suspended sentence with protective custody was revoked and imprisonment sentence was imposed instead. Eight conditionally convicted persons who received protective custody did not report so some legal steps are undertaken, i.e. the court is notified hereof.

In November 2015 in the Register of the Department for Treatment and Alternative Sanctions 20 convicted persons who received suspended sentence with protective custody were recorded. Thirteen offenders on suspended sentences are still active, while seven did not report to the Custodian.

Further to the given data it can be concluded that suspended sentence with protective custody in the Republic of Serbia is a criminal sanction that is equally represented alongside other sanctions. Considering all the advantages of this sanction, advisory, correctional and preventive functions hereof the question remains why this sanction is implemented in such a small number. In ten-year period it has been implemented only 158 times. No state authority has conducted an analysis of this issue in criminal law, thus the analysis conducted in the paper is the first serious attempt to draw the attention of professional and scientific public to this problem.

Further to the research results it can be noticed there is a huge disproportion between the implementation of common suspended sentence and suspended sentence with protective custody. It indicates to inconsistent treatment by court, but also warns that judges in the Republic of Serbia still do not have full awareness of the importance of this sanction and its social benefits.

According to the documentation of the Department of Treatment and Alternative Sanctions it can be noticed that the offenders are mostly persons who are alcohol or drug addicts. The interviews with those persons clearly reveal that they grew up in bad families, in families where nobody talked with them, or showed them the right direction, those are persons who often suffered from abuse in families and due to such experiences those persons were often finding escape in narcotics, alcohol or other vices.

Analyzing the causes of offences, it can be plainly concluded that the purpose of imposing suspended sentence upon convicted persons can be achieved in most cases only if those persons receive custody and protection of a Custodian. Imprisonment sentence should be suspended as much as possible, it should remain ultima ratio. Hence, it can be irrefutably concluded that the purpose of punishment should be achieved first through correctional measures, and only if such measures do not yield adequate results, repression remains as an ultimate measure.

The conclusion that logically arises from the results of our research has also been confirmed by modern practice of imposing suspended sentence with protective custody in developed

countries, and supported by the conclusions of the Seventh World Forum on Crime held from 28 to 30 November 2015 in Beijing, which was tackling the issue of criminal sanctions.

4. EXAMPLES FROM PRACTICE REGARDING SUSPENDED SENTENCE WITH PROTECTIVE CUSTODY

There are plenty of successful examples of the execution of suspended sentence with protective custody in the practice of the Department for Treatment and Alternative Sanctions that are explained in the following paragraphs.

In fact, **person A** sentenced for illegal possession of firearms and jeopardizing security to imprisonment for one year to six months, but it was decided that the sentence would not be imposed if during the probation of four years the person did not commit a new offence. In addition, the person A received protective custody for three years. The offence was committed when the person A was threatening his common-law partner and her friend that he would smash their jaws and pay to some junkies to beat them up, which the person, as he claimed, did because of a sudden and unexpected breakup of a long-lasting relationship with the partner and trauma caused by it, although the person had devoted a good part of his life to the partner.

The person A is 60 year old, has completed secondary education, and unemployed. The information about the offender were collected from the documents of the Department for Treatment and Alternative Sanctions which reveal more facts about the manner of outlining a program for the execution of protective custody. The document called Tools for Risk Assessment reveal that factors of low risk are housing conditions, education, relationships in the family, friends and acquaintances, health condition, attitudes, employment, spare time organization and material conditions. After the first interview it was recorded that person A had showed regret over his actions.

The person A lived together with mother and children and such environment was not crime-prone nor could it affect commence of such offence. The person A had worked for 30 years, but due to the closure of the company at the moment of committing the offence the person was jobless, and had no income. The children worked, and the mother who lived with the person was very sick and required constant help and care. At the time of serving suspended sentence the person A's mother died which made the program of the person A's recovery harder. The friends of the offender were not offenders, thus the environment and acquaintances did not represent an opportunity for reoffending. The offender did not spend very quality free time because of the lack of material means, but most of the free time was spent on looking after sick mother, watching television, going for walks, in a gym, so these activities also presented low risk for inflicting harm to others and oneself and for reoffending.

Middle risk factors were emotional state and a manner of reasoning. The emotional state of the person A was represented by the person's attitude that he deserved much better life than the one he had, and that he should have good life because he had helped people a lot. When it came to emotional reactions, it can be concluded that the person A was very impulsive and reacted inappropriately and tended to jump to conclusions without any deeper and thorough analysis. The person also showed good will to change his behavior.

There were no high risk factors.

On the basis of these conclusions derived from Tools for Risk Assessment a detailed program of the execution of protective custody was drawn and it was stated that the person A had to see his Custodian on regular basis, in order to get motivated to find a job and develop new interests, and spend more quality spare time. Apart from that it was necessary to establish communication with the person A's family on regular basis, to keep contact via phone or in person once a month unless it turned out that those contacts had to be more frequent.

The offender accepted all the obligations set by the program. As the program was implemented according to the plan completely (the offender appeared for registration on regular basis,

submitted the reports of a specialist, accepted suggestions, improved behavior, which was all confirmed by the family members and the people from his surrounding and the Custodian) Custodian Office thought that protective custody for the offender should be revoked before the expiry of probation, as the purpose of protective custody had been fully achieved.

Suspended sentence with protective custody can sometimes yield quite positive results, as it was in the case of the person A. However, there are in practice of the Department for Treatment and Alternative Sanctions some examples of suspended sentence with protective custody that were not so successful or whose execution was very difficult.

The person B was sentenced for domestic violence to imprisonment of one year to six months, but it was decided that the sentence would not be imposed if during the probation of four years the person did not commit a new offence. In addition, protective custody was also imposed for three years. The person B committed an offence towards his mother. The person B was 20 year old, completed secondary education, unemployed, single. By committing violence the offender endangered tranquility, physical integrity and mental health of his mother. The offence was committed due to consuming narcotic drugs, and the person B first beat his mother with legs and arms, and finally inflicted an injury on her thigh with a knife. After collecting data the following Diagnostic conclusion was reached.

Low risk factors were housing conditions, education, employment, material conditions and health state. Medium risk factors were friends and acquaintances, spare time organization and the manner of reasoning, while high risk factors were relationships in the family, abuse of psychoactive substances, emotional state and attitudes of the offender.

The person B had troublesome behavior even before he was 14 as he had fights with his peers when he showed a high level of aggressiveness and pleasure while doing that. The offender had not been sentenced before this but there was a criminal proceedings against him for robbery. The offender came to the first interview under the influence of narcotics and showed some signs of being confused.

The offender on suspended sentence completed secondary education and enrolled in a graduate school, but did not pass any exams. Also the offender said that he had enrolled in some other studies, which proved to be false after investigation and was used as an excuse or grounds on which the person B took money from his parents. The offender lived with his mother and sister, while his father was working on an ocean liner, where he had good salary so the person B could live comfortably.

The person B did not take all the responsibility for committing the offence, nor did he show regret completely, but claimed to be provoked by his mother. The person B also mitigated the importance and consequences of the offence and justified his aggressive behavior, and as a reason of his attack he also added that his mother took away a packet of marijuana from him. Throughout the execution of protective custody the person had to take a test on psychoactive substances and the test was positive. The person was ordered immediate abstinence from psychoactive substances.

As for the relationships within the family, the person had several times abused his sister who was a student, and his mother who was unemployed. So, the family was considered dysfunctional. As for the emotional state, the sister of the person B told the Custodian that the offender had often maltreated his emotional partners as well.

The offender's relations with his friends and acquaintances were considered a high risk factor because all of them were from criminal milieu and consumed different psychoactive substances. The worst of all was the fact that the offender denied abuse of narcotics, although it was ascertained that he had been consuming them for the last five years. Such environment provided fertile ground for reoffending.

As for spare time the person B spent it with his dogs and socializing through social networking sites. In daytime he mostly liked to sleep, while at night he would go out. The offender's father had big income which provided him comfortable life.

It was assessed that the person B had inadequate, impulsive and hasty reactions, and very poor self-control, which could lead to hurting others from his surrounding and also to reoffending. The person B blamed others for what was happening in his life, and mitigated the consequences and importance of his action.

After a detailed analysis and collecting data a Program for the Execution of Protective Custody was outlined which prescribed keeping in contact with the Custodian on regular basis via phone or in person twice a month, contact with the members of the family, inclusion of the person B into therapeutic and advisory procedures in appropriate facilities, as well as insistence on abstinence from psychoactive substances.

After having seen the Program the person B confirmed by his signature that he agreed with the Program and showed verbal interest for unhindered execution of the Program. At the beginning of the implementation of the Program the person B did not show up for scheduled interviews namely four times, and he justified his absence by illness or having forgotten about the obligation. The offender gave contradictory statements and statements different from the statements of the family members. After all of these annotations, the Custodian Office sent an emergency report to the court to notify the court that there were difficulties with imposing the sentence and the offender was not willing to cooperate. Only after this step was taken the person B started to comprehend the consequences of his behavior more seriously, to meet timely his obligations determined by the Program, and to accept suggestions and to cooperate. Pharmacotherapy was suggested and the person B accepted it. Protective custody over the person B is still ongoing.

5. CONCLUSION

On the basis of former experiences in the implementation of the criminal sanction of suspended sentence and the conducted research of the authors of this paper it can be concluded that the future orientation of the implementation of criminal sanctions is towards the implementation of suspended sentence with protective custody. The comprehensive analysis of suspended sentence with protective custody resulted in the conclusion that on the territory of the Republic of Serbia and some countries in its neighborhood this type of criminal sanction still has not been widespread. Some reasons for this are definitely organizational and HR issues. It is our opinion that judges in judicial branch do not realize the advantages of this sanction, so criminal sanctions are still imposed in a conventional manner. It is apparent that judges are used to this way of sentencing, so most often they decide on imposing sentence of imprisonment or a common suspended sentence. In addition to this, one of major issues the Department for Treatment and Alternative Sanctions is facing when executing suspended sentence with protective custody is insufficient number of Custodians and the fact that the offenders are still not used to this way of being integrated into society, still are not socially responsible persons and still are not aware of all the benefits of this criminal sanction not only for them but also for the whole society. Unfortunately, alternative sanctions, the sanctions that have become quite productive in developed countries, are still suppressed in the juridical system of the Republic of Serbia.

An important component of suspended sentence is a possibility that the court may impose protective custody upon the offender for a certain period of time during probation. It is our opinion that protective custody should not be associated solely with suspended sentence. This measure can be imposed together with a parole sentence and correctional measures. Further to our research and other research conducted on this issue we may state with certainty that the elements of different criminal sanctions combined in this manner may yield extraordinary

results. Thus it is suggested that the Criminal Code of the Republic of Serbia should be amended in that direction.

Further to the analysis of punishments in developed countries and neighboring countries it can be concluded that special and general prevention is the main purpose of punishment and there are more and more deviations from conventional, standard punishment on one hand and on the other more and more alternative punishments are present. Therefore, suspended sentence, suspended sentence with protective custody, communal work, house arrest are alternative measures of punishment that have been proven in practice to give excellent results and to achieve the main purpose of punishment with success.

Also, it is necessary to think about introducing some innovations regarding parole. It is desirable to conduct some sort of custody upon the person on parole and to impose some obligations upon those persons as well, supervision or protection which can have double benefits. The society would benefit from this way of executing imprisonment sentence, while the persons on parole would be provided with support to adjust to society and take part in social life faster and easier.

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IMPLEMENTATION OF ICT INNOVATION TRENDS IN CROATIAN HOTEL INDUSTRY

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ABSTRACT

In the last decade, the impact of ICT (Information Communication Technology) has been recognized and as one of the major challenges in hotel and hospitality industry. Regarding tourism in general, ICTs are necessary components of doing business. Information technology is nowadays everywhere and by adding communication technology, the possibility of how it can be used in tourism as a global phenomenon is endless. If the right ICT is correctly applied, every hotel can obtain visible organizational benefits. This paper describes the implementation of ICT innovation trends that need to be used in the hotel industry of Croatia. The aim of this paper is to analyse and describe the possibilities of implementation of ICT in Croatian hotels.
Keywords: hotels, hospitality, Croatian tourism, ICT, innovation trends

1. INTRODUCTION

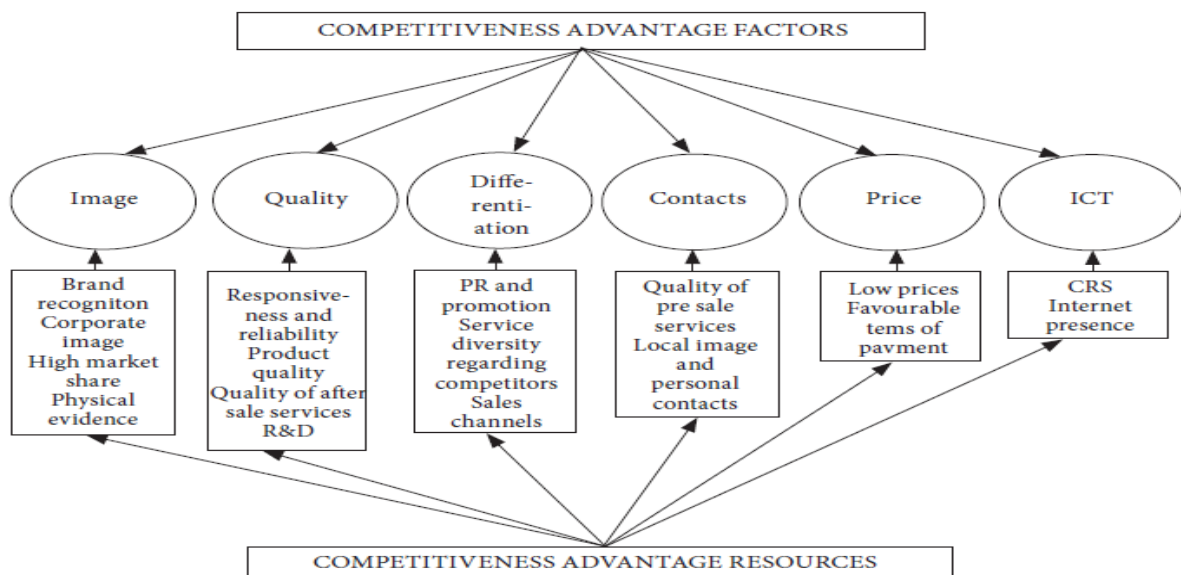
Tourism sector is one of the first services sectors to adapt and use information and communication technology (ICT) for promoting its services. Nowadays, ICT has deeply affected the way business is performed and organizations compete (Porter, 2001; referenced in Mavri and Angelis, 2009, p. 113). The rapid development and commercialization of Information and Communication Technologies (ICTs) for the travel and tourism industry has prompted hotels and other enterprises in this sector to increasingly adopt these technologies. This is based on the expectation that the new ICT based technologies and processes would lead to an improvement in their operating efficiencies and customer service levels (Hoontrakul & Sahadev, 2007, p. 535). The ICT based products and processes help the hotels to enhance the operating efficiency, improve the service experience as well as provide a means to access markets on a global basis. While ICTs were used in the hotel industry from the late seventies in the form of Computerized Reservation systems and Global distribution systems, it was only in the 90s that the ICTs began to make a difference in the hospitality sector (Cooper et al, 1998, referenced in Hoontrakul & Sahadev, 2007, p. 535).

2. THE ROLE OF ICTs IN TOURISM AND HOSPITALITY INDUSTRY

From the competitiveness point of view, ICTs play a critical role for tourism organizations and destinations (Buhalis 1998, 2003; O'Connor, 1999; Sheldon, 1997; Poon, 1993). Information and Communication Technologies (ICT) is umbrella term for technological developments for the Umbrella term for technological developments for the Production, analysis, storage, search, distribution and use of information ICT includes a combination of hardware, software, telecommunications, Netware, groupware Human-ware (Waghmode and Jamsandekar, 2013). According to (Bethapudi, 2013, p. 67) information communication technologies (ICTs) have been transforming tourism globally. By maintaining their price leadership in the market or by

differentiating their product and services, tourism companies can gain competitive advantage if ICT is managed properly. (Poon, 1993; Werthner & Klein, 1999; Xiaoqiu Ma, J. et. al., 2003). ICT enable travellers to access reliable and accurate information as well as to make reservations in a fraction of the time, cost and inconvenience required by conventional methods (O'Connor, 1999). Successful ICT deployment requires innovative management to constantly review developments and adopt suitable technological solutions in order to maximize organizational competitiveness (Buhalis & O'Connor, 2005). Information and Communications Technology, according to Connolly and Olson (2000) is the single greatest force affecting change in the hospitality industry. However, as in the case of other sectors, the rate of adoption of ICTs has been found to be quite uneven across the hotels (Hoontrakul & Sahadev, 2007, p. 535). ICT enables effective data processing & communication, organisational benefit, ICT, provide enormous capabilities for consumers. ICT played an outstanding role for development of modern tourism. It has provided new tools and enabled new distribution channels, thus creating a new business environment. ICT tools have facilitated business transaction in the industry by networking with trading partners, distribution of product services and providing information to consumers across the globe. On the other hand consumers are also using online to obtain information and plan their trip and travel. Information is the key element in the tourism industry (Sadr, 2013, p. 160). Next figure shows the importance of ICT as a competitive advantage factor in hotel sector.

Figure 1.: Proposed Competitive advantage factor model in hotel sector (CAF model)



Source: Adapted from (Mihalič & Dmitrović, 2000., referenced in Mihalič & Buhalis, 2013., p. 41.).

(Mihalič & Buhalis, 2013, p. 48) created a CAF model which shows that also in traditional economies or in the early ICT implementation stage the ICT paradox does not exist and that ICT has indirect and strong positive potential for firm performance. The ICTs are a complement and enablers of other competitive resources and can no longer be ignored. Failure to employ ICTs can lead to competitive disadvantages as channels to the market will go unexplored, and PR and promotion, service diversity, branding etc. will not reach the potential competitiveness potential, if not properly supported by the ICT (Mihalič & Buhalis, 2013, p. 48).

3. IMPORTANCE OF ICT FOR CROATIAN HOTEL INDUSTRY

3.1. Short overview on hotel industry in Croatia

The development of the hotel industry in Croatia began in the sixties of the twentieth century, when the systematic construction of hotels started. Regards to the organizational structure and the average size of hotel facilities, the present Croatian hotel industry is characterized by certain specifics (Razović, 2014, p. 643). According to accommodation facilities statistics in Croatia, hotels make only about 13 % of the total number of tourist beds in Croatia. Therefore, we can see that Croatia is not a dominant destination focused on the hotel guests. The most numerous shares of tourists who come in Croatia stay in apartments, private accommodation 49 % and camps 22 %.

Table 1. Accommodation facilities in Croatia by type (on 31st August 2015.)

Accommodation type	Number of accommodation facilities in 2015.	Percentage (%)
Hotels and aparthotels	135.322	13.1
Tourist resort	30.836	3.0
Apartments	15.371	1.5
Camps	227.568	22.1
Private rooms	512.583	49.8
Spas	2.510	0.2
Resorts	2.749	0.3
Hostels	11.692	1.1
Other accommodations	88.550	8.6
Uncategorized facilities	2.131	0.2
TOTAL	1.029.312	100

Source: Ministry of tourism, (<http://www.mint.hr/UserDocsImages/TUB2015HR.pdf> ;access: 15.11.2016.)

The hotel industry in Croatian tourism is not yet the dominant force because the accommodation offer is fragmented (large number of private accommodation), disorganized and oriented on holiday seasonal business. The hotel offer in Croatia is mostly mid-level quality and the structure of the hotel product has not been developed. A large part of hotel business in Croatia is performed through hotels that have 100 to 200 rooms (3 star hotels), that were built in the sixties and seventies of the twentieth century for mass, undifferentiated market (Razović, 2014, p. 644).

3.2. Some Statistical Indicators of the Use of ICT technology in Croatian Tourism by Tourists

Tourism is usually defined as services for people travelling to and staying outside their usual environment for less than one consecutive year for leisure or for business purposes (Mavri & Angelis, 2009, p. 114). ICTs in this industry consist of various components that include computerized reservation systems, teleconferencing, video, video brochures, management information systems, airline electronic information systems, electronic funds transfer, digital telephone networks, smart cards, mobile communication, e-mail, and Internet (Waghmode and Jamsandekar, 2013). The next table is indicating percentage of Internet sources of travel information by age.

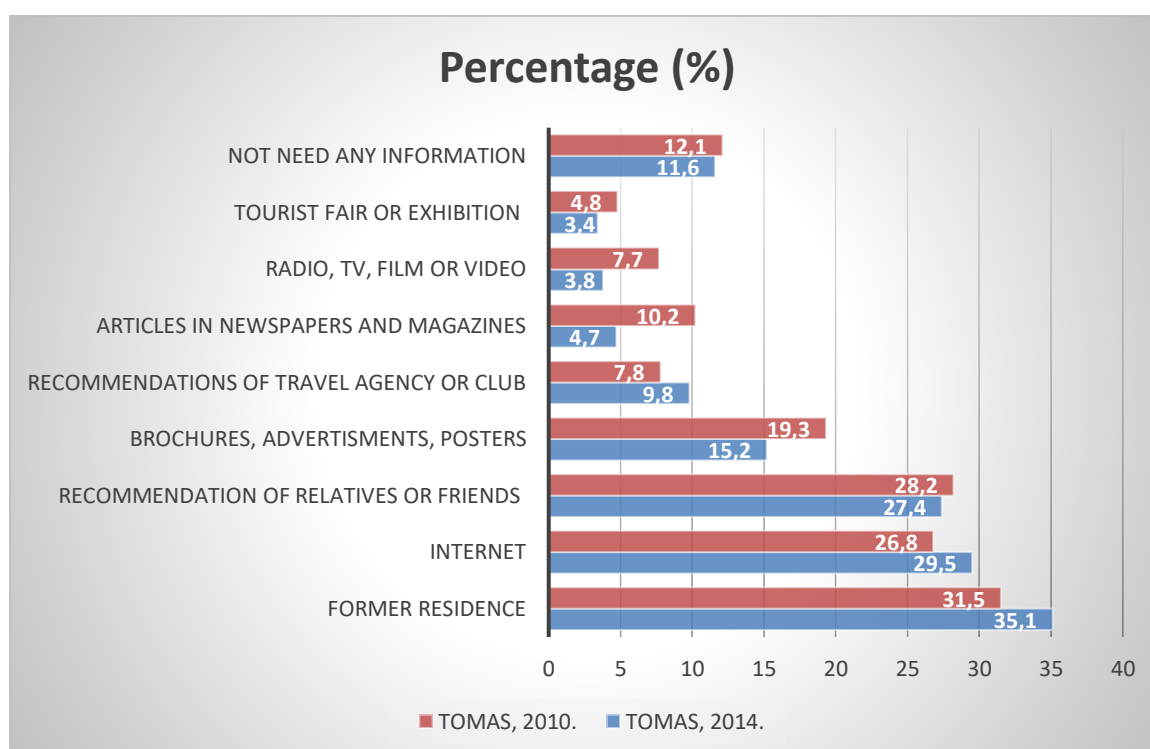
Table 2. Internet sources of travel information by age of tourists

Age of tourists (Years)	Internet used as information source (YES) in %	Internet not used as information source (NO) in %
up to 29	43,0	57,0
30 to 49	29,7	70,3
50 and over	18,8	81,2

Source: Croatian tourism in numbers, Issue 1, 2015., p. 11.

The table below shows the importance of internet use as a source of tourist information.

Chart 1. The source of information when tourists decide to come in Croatia



Source: Attitudes and Expenditures of Tourists in Croatia – TOMAS 2010. & 2014., Institute for Tourism, Zagreb, 2010., & 2014.

The following table shows the importance of constant improvement of the content of web pages, as a percentage of 41.5% from 2010 and 51.3% from 2014, shows exactly that the official website of the tourist boards extremely important in their use of information on the selection of destinations. This is another indication that the Internet is an essential medium in communicating and attracting tourists to Croatia.

Table following on the next page

Table 3. The source of tourist information by type of website

Source of information	Percentage (%) TOMAS, 2010.	Percentage (%) TOMAS, 2014.
Web site of tourist board (national, regional, local)	42.0	36.7
Web site of accommodation	41.5	51.3
„Online“ tourist agency (OTA)	35.4	33.6
Social media (Facebook, TripAdvisor, Instagram, Twitter...)	30.1	38.6

Source: Croatian tourism in numbers, Issue 1, 2015., p. 11. and Attitudes and Expenditures of Tourists in Croatia – TOMAS 2010., Institute for Tourism, Zagreb, 2010.

The table below shows the importance of online reservation from 2014. It shows exactly that the highest percentage of reservation make through accommodation and transport and the lowest through renting services.

Table 4. Online reservation of services in summer 2014.

Service*	Percentage (%)
Accommodation	73,4
Transport	71,3
Excursions	50,0
Tickets for concerts, events, exhibitions etc.	39,8
Rent a car, rent a boat, rent a bicycle/motorcycle	40,4

Source: Croatian tourism in numbers, Issue 1, 2015., p. 11.

*Multiple response. Data for those who booked a service in advance.

The next table shows the accommodation facilities booking in destination from 2014. It shows that the highest percentage of booking accommodation was established direct with accommodation establishment.

Table 5. Accommodation facilities booking in destination

Booking channels	Percentage (%)
Directly with an accommodation establishment	42,5
Through a travel agency	26,1
No prior booking	27,7
Other	3,7
Total	100,0

Source: Croatian tourism in numbers, Issue 1, 2015., p. 12.

The following table shows the importance of the moment of accommodation booking. We can see that tourists choose to make booking many weeks before their arrival in Croatia.

Table 6. The moment of accommodation booking

The moment of accommodation booking*	Percentage (%)
Less than a week before arrival	6,2
1 to 4 weeks prior to arrival	22,8
5 to 8 weeks prior to arrival	32,2
9 to 12 weeks prior to arrival	17,2
More than 12 weeks prior to arrival	21,6
Total	100,0

Source: Croatian tourism in numbers, Issue 1, 2015., p. 12.

*Data for those who booked the accommodation in advance.

Globalization of tourism activities (Cooper & Wahab, 2001) and the wider application of ICT in tourism (Sigala 2007) commonly create new dynamic environment where innovation concept and its associated transformation in operative solutions applied in practice, has become of great importance. (Garbin Praničević & Zovko, 2016, p. 41)

4. ICT INNOVATION TRENDS IN TOURISM

Tourism is a major source of revenue in the Mediterranean countries (Mavri and Angelis, 2009, p. 115). According to (Bethapudi, 2013, p. 67) information communication technologies (ICTs) have been transforming tourism globally. The trend of rapid international trips growth is turning tourism into one of the most lucrative industries. Tourism companies operate in a business environment where innovation is important for their survival (Sorrensen, 2007, referenced in Praničević & Zovko, 2016, p. 41). The fact is that ICT enable all tourists around the world to access all reliable and accurate tourist information, as well as to ask, search or make their own reservations in a fraction of the time and the cost whenever they want in every part of the world.

Three main innovation waves had a great impact on the tourism sector by the end of 20th century are (Mavri and Angelis, 2009, p. 114):

- The development of the Computer Reservation System (CRS) in the 70s;
- The development of the Global Distribution System (GDS) in the 80s;
- Internet in the 90s.

Authors (Garbin Praničević & Zovko, 2016) point out several ICT innovation trends (Fitzpatrick, 2015) that emerged at global level including recent and forthcoming innovations, either on operational level, or on conceptual one, that indicate significant changes in the hotel industry. The overview of trends (Garbin Praničević & Zovko, 2016, p. 41-43) is presented in text below:

- **The Internet of Things (IoT)** – or “Internet of Objects” is term related with networked devices via the Internet (Kirkpatrick 2010). Connecting devices due to wireless intelligent network, provides new opportunities for interaction between different systems and brings new possibilities of data measurement, collection, storage, visualization, data exchange with other things and people as well as performing tasks based on the information collected.

- **Big data** – is referring on powerful tool for analysing large quantity of data and translate social metrics into decision. It is, therefore, beneficial as supporting technology to knowledge management and decision making process.

- **Mobile booking** – current trend in tourism industry mostly provided by consumer confidence in mobile technology supplemented with the industry's ability to provide real time pricing information.
- **Travel 3.0: Smart Travel** – personalised travel services provided due to big data and mobile technology support. The aim of named technology is to turn user's device into a personal assistant that provides “the right information in the right time on the right place”, and additionally predicts user's travel, appointments, and web interests by using information from user's calendar or inbox.
- **Digitalisation in secondary cities** – secondary cities (geographically perceived as urban centres performing vital governance, logistical and production function) is making relevant effort to attract travellers. With intention to be smart, they implement the cutting-edge technology and redesign as more as possible its tourism offers. That technology may range from simple smartphone applications and online games to big data usage.
- **Hotels embracing technology** – the latest technology that actually improve checking in, tracking luggage, accessing rooms, ordering drinks and paying hotel bills with a smartphone.
- **The end of mobile applications as is known** – the main problem of the increasing number of travel applications is an overwhelming volume of the incoming content. Producing multiple contents on a phone screen, they all compete with each other for a customer's attention. The concept of application as independent service only, is becoming less attractive than the concept of an application as a publishing tool, with additional related content. One of the possible solutions is Google cards, the smart digital assistant that predicts what customer wants to know before asks for it.
- **Augmented Reality (AR) and Virtual Reality (VR)** – technologies, virtual reality and augmented reality are similar in the goal of immersing the user. Augmented Reality enable users touch with the real world while interacting with virtual objects around them. By utilising this quite delightful technology, reality augmented historic figures or a fictional character appears to promote attractions, restaurants and other local offer. In Virtual Reality, on the other side, the user is isolated from the real world while immersed in a world that is completely virtual.
- **Destination Management Systems (DMS)** – the development of DMS substantially have been supported by numerous destinations managers since it: (i) enhances the competitiveness of tourism destinations and specifically of the small and medium tourism enterprises (SMTEs) (Sigala 2009) and (ii) concurrently offers tourists various travel information through Internet by using the web-based portals developed by local DMOs.
- **Dynamic packaging** – considered as the bundle of different travel components, priced in real time, arranged as response to the consumer's or booking agent requests (Cardoso 2005). Above mentioned DMS portals also may offer the dynamic packaging to the tourism demand side.
- **Smart tourism destinations (STD) concept** – due to adoption of cloud computing is provided access to web platform that significantly facilitate destination management's efforts to offer more productive, efficient and competitive services. The Smart Tourism Destinations (STD) concept emerges from the development of Smart Cities (Buhalis and Amaranggana 2015).

5. CONCLUSION

Tourist activities, according to the Ministry of Tourism (2015), generate more than 18% of Croatian GDP. Therefore, it can be concluded that the tourism sector is extremely important for Croatia. However, regardless its declared importance emphasized by public sector, one gets the impression that the present level of development of Croatian tourism is, in fact, a result of an uncontrolled process, rather than wise management. In this context we can understand some of the essential features of the Croatian hotel industry, such as the unfavourable structure of the

total accommodation and hotel capacities, particularly highlighted in this paper. Furthermore, this correlates with a low occupancy rate in hotels and in general, which is the result of a lack of attractiveness of our overall tourism and hotel offers in attracting tourists and other users of hotel services in low season. However, the Croatian hotel industry competes on the international tourism market and thereby it achieves a certain level of competitiveness. Despite the difficulties it is faced with, such as human resources, financial, legislative instability problems, etc., Croatian hotel industry manages to survive in this already saturated market. In this context, we can see that domestic hoteliers recognize the importance of ICT trends and they find ways to apply them in their business. Ultimately, Croatian ICT experts have developed many effective and efficient software solutions and mobile applications of their own. Even public sector bodies recognize the importance of monitoring ICT trends and they encourage their business implementation. Finally, although no technology in the hotel industry, including ICT, cannot replace the necessity of direct contacts with guests, though it can greatly contribute to increasing the level of customers' satisfaction. It is therefore important not only to monitor ICT trends, but to create them ourselves.

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COMPLEXITY, CHAOS AND ECONOMIC MODELING

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ABSTRACT

Complexity is one of the most important characteristic of the economic behavior. Complexity involves chances and risks, and also nonlinearity. Modern economy is a very complex system, and its interactions with the greater social and natural environment, requires us to move beyond the familiar economic relationships studied by mainstream economics. Complex adaptive system (CAS) is a set of many different components, interacting in nonlinear way, in the absence of any external regulatory or supervisory influence. The behavior of CAS cannot be explained by a behavior of specific components, instead, CAS shows emergent behaviors. And the modern economy has all properties of the CAS. The CASs, as large dynamic systems, have the natural tendency to evolve to critical state between order and disorder, often also called the edge of chaos, where either a large or small event, perhaps even unmeasurable change, can trigger a chain reaction of unpredictable magnitude, and change in the CAS behavior at some later point in the future. A model is a simplified picture of the real world. But, modeling of economic, political and social phenomena is very complex, because humans are more complicated and unpredictable than nature phenomena. This paper is the attempt to examine the significance of complexity and chaos for analyzing modern economy, and on that basis, the real possibilities for economic modeling and forecasting, especially in the field of economic development.

Keywords: *chaos, chaos theory, complexity, complex adaptive system, economic modeling*

I think the next century will be the century of complexity. Stephen Hawking (2000)

1. INTRODUCTION

A system is a set of interrelated elements (Ackoff, 1971). Thus a system is an entity which is composed of at least two elements and relation that holds between each of elements and at least one other element in the set. Each of a system's elements is connected to every other element, directly or indirectly.

Modern economy is a complex system that links people, households, firms, organizations, agencies, sovereign states (and their national economies in international economy)... Adding to the complexity is the fact that the economy is an integral component of even larger and more complex social and natural systems. Humans (economic agents) interact and carry out their economic activities within a society, and economic and social systems operate within a natural environment that is called the ecosystem. Therefore, the complexity of the modern economy and economic development, and its interactions with the greater social and natural environments, requires us to move beyond the familiar economic relationships studied in standard (mainstream) economics.

2. COMPLEXITY, COMPLEX SYSTEMS AND COMPLEX ADAPTIVE SYSTEMS

There is no agreed-upon definition of complexity, although there are various operational descriptions (Cambel, 1993, p. xi). Complexity results from the inter-relationship, inter-action and inter-connectivity of elements within a system and between a system and its environment.

Herbert Simon informally defines a "complex system" to be a system made up of a large number of parts that interact in a non-simple way (Simon, 1962). According to W. Brian Arthur complex systems are systems in process, systems that constantly evolve and unfold over time (Arthur, 1999). Common to all studies on complexity are systems with multiple elements adapting or reacting to the pattern these elements create. Such systems arise naturally in the economy. Economic agents, be they banks, consumers, firms, or investors, continually adjust their market moves, buying decisions, prices, and forecasts to the situation these moves or decisions or prices or forecasts together create.

The complexity approach to economy largely originated (1988) from the "Santa Fe Perspective": the view of a group of scientists working in the Economics Program at the Santa Fe Institute (SFI) for the Study of Complex Systems. Main focus of the SFI is on complex adaptive systems (CASs), composed of elements, called agents, that learn or adapt in response to interactions with other agents (Holland, 2014, p. 24).

CASs, are collections of many different components, (units, subunits, parts, agents...) interacting in nonlinear way in the absence of any external supervisory influence. Therefore, the behavior of CAS cannot be explained by a behavior of specific components, instead, CAS show emergent behaviors. Complexity pictures the economy not as deterministic, predictable and mechanistic, but as process-dependent, organic and always evolving.

Basic properties of CASs are (Sturmberg, et al., 2014):

1. Nonlinearity: In nonlinearity the outputs are not proportional to their inputs. Nonlinearity (a) can lead to sudden massive changes of the system and (b) is sensitive to initial conditions.
2. Open to environment: Living systems continuously interact with their environment, for example, exchange material, energy, people, capital and information. In open systems, nonlinear responses to the external environment can lead to sudden massive and stochastic changes.
3. Self-organization: Self-organization is a process whereby some form of global order or coordination arises out of the local interactions between the components of an initially disordered system.
4. Emergence: Emergence is the way in which complex systems and patterns arise out of multiplicity of relatively simple interactions.
5. Pattern of interaction: All parts of system involve predictable, repetitive processes. Pattern of interaction can result from (a) different combinations of agents leading to the same outcome, or (b) the same combination of agents leading to different outcomes.
6. Adaptation and evolution: Adaptation is the process of change due to changes in the environment. Evolution is the persistence of a change into the future. Adaptation and evolution (a) occur over many years, during which time whole system adapts to function in the altered environment; (b) change the whole system and are not restricted to a few measurable factors; and (c) lead to a new dynamic interactions.
7. Coevolution: Coevolution is the change of an object triggered by the change of related object. Coevolution results in parallel development of a subsystem with new characteristics and dynamics.

Most generally, a CAS is a large collection of diverse parts interconnected in a hierarchical manner such that organization persists or grows over time without centralized control (X1a). Through a dynamical, continuously unfolding process, individual units within the system actively (but imperfectly) gather information (and not only information) from neighboring units and from external environment.

Santa Fe approach (i.e. complexity perspective, complexity economics) pointed out six features of an economy as CAS (Arthur, et al., 1997, pp. 1-14):

1. Dispersed interaction: What happens in the economy is determined by the interaction of many dispersed, possibly heterogeneous, agents acting in parallel. The action of any given agent depends upon the anticipated actions of a limited number of other agents and on the aggregate state these agents co-create.
2. No global controller: No global entity controls interactions. Instead, controls are provided by mechanisms of competition and coordination between agents.
3. Cross-cutting hierarchical organization: The economy has many levels of organization and interaction. Units at any given level typically serve as ‘building blocks’ for constructing units at the next higher level.
4. Continual adaptation: Behaviors, actions, strategies, and products are revised continually as the individual agents accumulate experience—the system constantly adapts.
5. Perpetual novelty: Niches are continually created by new markets, new technologies, new behaviors, new institutions. The very act of filling a niche may provide new niches. The result is ongoing, perpetual novelty.
6. Out-of-equilibrium dynamics: Because new niches, new potentials, new possibilities, are continually created, the economy operates far from any optimum or global equilibrium. Improvements are always possible and indeed occur regularly.

Systems with these properties are also called ‘adaptive nonlinear networks’ (ANN). An essential element of adaptive nonlinear networks is that they do not act simply in terms of stimulus and response. Instead they anticipate (Arthur, et al., 1997, pp. 1-14). In particular, economic agents form expectations—they build up models of the economy and act on the basis of predictions generated by these models. These anticipative models need neither be explicit, nor coherent, nor mutually consistent. Because of that, the mathematical tools economists customarily use, which exploit linearity, fixed points, and systems of differential equations, cannot provide a deep understanding of ANN. What is needed are the new classes of combinatorial mathematics in conjunction with computer modeling. This conception of the economy as an ANN has big implications for the foundations of economic theory and for the way in which theoretical problems are formulated and solved.

3. CHAOS AND CHAOTIC SYSTEMS

The term "chaos" is popularly used to refer to (complete) disorder or confusion (English Oxford Living Dictionaries). According to Davide Hsieh, chaos is a nonlinear process which "looks" random (Hsieh, 1991). Chaos is the mechanism which allows the rapid growth of uncertainty in mathematical models (Smith, 2007, p. 1). Chaos is the generation of complicated, aperiodic, seemingly random behavior from the iteration of a simple rule (Rickles, et al., 2007). Mathematical chaos is nonlinear, deterministic, and sensitive to initial conditions. The different definitions of chaos have been designed to meet different purposes and they are based on vary different backgrounds and levels of mathematical sophistication (Aulbach and Kieninger, 2001).

Chaos has had a major impact on the sciences, forcing a reappraisal of the meaning of “error” and “uncertainty”, and their application to our world. A chaotic system is a (deterministic) system that is difficult to predict, because it has sensitivity to initial conditions, and small change in this conditions could drastically change the course of later events, and the whole system behaviour. Complex and chaotic systems are both examples of nonlinear dynamical systems (Rickles, et al., 2007). Complex systems are highly composite ones, built up from very large numbers of mutually interacting subunits. Chaotic systems can have very few interacting subunits, but they interact in such a way as to produce very strange dynamics.

A dynamical system is a system whose state (and variables) evolves over time, doing so according to some rule. How a system evolves over time depends both on this rule and on its initial conditions—that is, the system's state at some initial time. Given this, a nonlinear system is one for which inputs are not proportional to outputs: a small (large) change in some variable or family of variables will not necessarily result in a small (large) change in the system.

Why is chaos of interest for economists? One of the reasons is the fact chaos is apparently stochastic behavior generated by a dynamic deterministic system (Federici and Gandolfo, 2014). By “apparently stochastic”, it is meant a random path that at first sight cannot be distinguished from the path generated by a stochastic variable. The second reason is that with a chaotic behavior of deterministic systems it is the impossibility of predicting the future values of the variable(s) concerned. The third reason is that chaos brings the sensitive dependence on initial conditions.

4. COMPLEXITY AND CHAOS

A hallmark of CASs is their capacity for self-organization, often self-organized criticality (Eidelson, 1997). Self-organized criticality refers to the tendency of a large dynamic system to naturally evolve to critical state between order and disorder, often also called the edge of chaos and at the point of self-criticality, either a large or small event can trigger a chain reaction of unpredictable magnitude (e.g. earthquakes, or financial market collapses). With chaotic behavior, exceedingly small, perhaps even unmeasurable differences in parameter values at one point in time lead to large and ultimately unpredictable differences in observed behavior at same later point in the future.

There is the implication that chaos is bad or undesirable, and that it implies the existence of unpredictable or random aspects in dynamic matters, but chaos is not essentially bad or undesirable—sometimes quite contrary, we can get order out of chaos (Cambel, 1993, p. 15)

Complexity is the generation of rich, collective dynamical behaviour from simple interactions between large numbers of subunits (Ricklefs, et al., 2007). Chaotic systems are not necessarily complex, and complex systems are not necessarily chaotic. A necessary condition, owing to nonlinearity, of both chaos and complexity is sensitivity to initial conditions. This is related to the concept of openness: a system is open if it is not or cannot be cut off from its environment. In closed systems, outside influences (exogenous variables) can be ignored. For open systems, this is not the case. Most real-world systems are open, thus this presents problems both for modelling and experimenting on such systems, because the effect of exogenous influences must be taken into account.

The key differences between chaotic systems and complex ones lie, therefore, in the number of interacting parts and the effect that this has on the properties and behaviour of the system as a whole (Ricklefs, et al., 2007). Some systems have a property known as criticality. A system is critical if its state changes dramatically given some small input.

The term edge of chaos is used to denote a transition space between order and disorder that is hypothesized to exist within a wide variety of systems. The concept's adaptation to the edge of chaos refers to the idea that many CASs, seem to naturally evolve towards the narrow regime near boundary between order and chaos (Baum and Huebler, 2016).

5. CHAOS THEORY

Chaos theory may not be interesting as it sounds. The name “chaos theory” makes it seem as if science has discovered some new and definitive knowledge about utterly random and incomprehensible phenomena (Kellert, 1993, p. ix). According to Stephen Kellert the chaos theory is the qualitative study of unstable aperiodic behaviour of deterministic nonlinear dynamic systems (Kellert, 1993, p. 2). It investigates general character of chaotic systems behaviour, rather than seeking to arrive at numerical predictions about its exact future state.

On the other hand, chaos theory, as a collection of mathematical, numerical, and geometrical techniques that allow us to deal with nonlinear problems to which there is no explicit general solution, is one way of studying complexity (Cambel, 1993, p. 16). While chaos theory is unable to make long-term predictions, it can provide guidance for short-term predictions. In principle, a chaotic system is predictable: if we could exactly specify the initial situation, all future states would follow from straightforward calculation. The problem is that our initial specification must be impossibly accurate (Kellert, 1993, p. xi)

6. FUZZY SETS

A system is a set of interrelated elements (Ackoff, 1971). But there are also fuzzy sets. A fuzzy set is a class of objects with a continuum of grades of membership (Zadeh, 1965). Such a set is characterized by a membership (characteristic) function which assigns to each object a grade of membership ranging between zero and one. More often than not, the classes of objects encountered in the real physical world do not have precisely defined criteria of membership.

At present, most of the techniques employed for the analysis of humanistic (i.e., human-centered) systems are adaptations of the methods that have been developed over a long period of time for dealing with mechanistic systems (physical systems governed in the main by the laws of mechanics, electromagnetism, and thermodynamics), and with the belief that the same or similar techniques can be applied with comparable effectiveness (Zadeh, 1973). But, the closer one looks at a real-world problem, the fuzzier becomes its solution. It is in this sense that precise quantitative analysis of the behavior of humanistic systems are not likely to have much relevance to the real world social, political, economic and other types of problems which involve humans, either as individuals or in groups.

Is national economy (as an analytical and statistical unit) a fuzzy set, with individuals and firms as elements of that set (system) with a grade of membership characteristics ranging between zero and one? One can ask whether certain multinational company with affiliates and assets in hundred and more countries belongs to a certain national economy or country (i.e. to that set), and to what extent. Same is with people with multiple residences and the countries in which they have their economic interests and assets.

7. HYPERCONNECTED WORLD AND DIGITAL ECONOMY

Across every sector of society, decision-makers are struggling with the complexity and velocity of change in the increasingly interdependent world (World Economic Forum, 2012, p. 8). The context for decision-making has evolved, and in many cases has been altered in revolutionary ways. Our lives are more intensely shaped by transformative forces, including economic, environmental, geopolitical, societal and technological systemic shifts.

An additional feature of modern economy is the rapid development and increasing connectivity of the network, which links individuals and institutions. Today we live in the hyperconnected world through networked computer systems. We have physical world and virtual world, and the power shifts from the physical world to the virtual world (digital space). And, unfortunately, we have the dark side of connectivity. The critical infrastructure that underpins our daily lives increasingly depends on hyperconnected online systems. Any device with software-defined behaviour can be tricked into doing things its creators did not intend, and any device connected to a network of any sort, in any way, can be compromised by an external party (World Economic Forum, 2012, p.27).

A world in which network effects are a driving force of behaviour is completely different from the world of standard economics, in which isolated individuals carefully weigh up the costs and benefits of any particular course of action. Digitization is creating a second economy that's vast, automatic, and invisible—thereby bringing the biggest change since the Industrial Revolution (Arthur, 2013).

The second economy constitutes a neural layer for the physical economy. Digital economy isn't producing anything tangible, but it is running an awful lot of the economy. What's important is that the second economy is not a small add-on to the physical economy. In two to three decades, it will surpass the physical economy in size.

Are laws, theories and models of the real (first) economy valied (and how much) in the case of the digital (second) economy?

8. ECONOMIC MODELS

The computer age has stimulated a rapid expansion in the use of quantitative techniques for the analysis of economic, social and other types of systms. The modeling of political and social phenomena is complex- usually considerably more complex than many problem in physical sciences, because humans are more complicated and unpredictable than atoms (Quliaris, 2011). The modern economy is a complex machine. All economic models, no matter how complicated, are subjective approximations of reality designed to explain observed phenomena A fundamental assumption of many economic models is that the system is in equilibrium and will only be disturbed by exogenous shocks (due to innovations).

The global economy is undergoing a series of transformartion that subject the future to considerably uncertainty, compexity, and unpredictablity (Kochhar, 2014). Traditional economic theory could not explain, much less predict, the near collapse of the financial system in 2008 and its long-lasting effects on the global economy.

Conuntries and sectors are now so interconnected that it has become difficult to track connections and determine who will be affected by economic events. Access to the right data is critical when analyzing economic trends and events. Without it, forecasting what direction the economy is likely to take in the future, or why past economic events played out the way they did, is like putting together a puzzle when some pictures (parts, links) are missing so the picture is incomplete (Burgi-Scmelz and Leoene, 2012). Unforunately, there are serious data gaps on national and internatrional macroeconomic level.

Most forecasts are generated by computet- based models (Burda and Wyplosz, 2005, p. 16). They are made of hunderds, sometimes thousands, of equations. constructing these equations is a long and difficult task. The exogenous varibles must be guessed by forecasters before their can ask their computer fo an answer. This introduces many margines of error. The models can never be fully reliable, and exogenous variables may be difficult to identify.

9. ECONOMIC FORECASTS

Economists are frequently asked to make forecasts. Governemts, international organizations, and large financial institutions frequently employ large teams of economists to prepare forecasts. There are several reasons why economic forecasting is inherently difficult (Burda and Wyplosz, 2005, p. 15). First, even an excellent understanding of an economy's structure- how its endogenous variables interact- does not preclude misjudging changes in exogenous variables. Second, expectations- which are volatile in nature- wield an important influence over the economy. Third, political changes occur quickly and can disrupt the economic envirionment. Finally, it takes time- often several months- to know what has really happened at any given point, so forecasts are always based on provisional information which become more precise only with time.

When it comes to long-term growth forecasts, economists tend to be overly optimistic. It is human nature to be optimistic (Ho and Mauro, 2015). Economists are not immune to optimism bias- the beleif that the future will always be as good or even better than the past and present. It can affect the way they predict economic growth, especially over longer-term horizons. The tendency of growth forecasts to be overly rosy is not only specific of forecasters at the IMF and World Bank, or UN.

10. COMPLEXITY OF ECONOMIC DEVELOPMENT

Economic development is a complex process. It is complex because a modern economy is a complex system that links millions of people, firms, organizations, and government agencies. Adding to the complexity is the fact that the economy is an integral component of even larger and more complex social and natural systems. Humans interact and carry out our economic activities within a society, and our economic and social systems operate within a natural environment that we call the ecosystem. It is simply unrealistic to treat social and natural events as independent outside shocks to the economic development process. (Van den Berg, 2012, p. 11)

Economic growth results in more complex and interdependent societies. The expanded interrelationships among people, businesses, organizations, social groups, governmental agencies, and other groups brings about very complex economic and social structures that can generate an almost infinite variety of outcomes (Van den Berg, 2012, p. 12). It is simply unrealistic to treat social and natural events as independent outside shocks to the economic development process.

Theory that has dominated economics for the past several decades states that humans are perfectly rational, markets are perfectly efficient, institutions are optimally designed and economies are self-correcting equilibrium systems that invariably find a state that maximises social welfare (Beinhocker, 2012). Many scientists argue that this theory has failed empirically on many points.

We can say that modern economy is never in equilibrium, but is constantly subjected to shocks, both exogenous and endogenous, that affect its economic development and growth. Modern economy as CAS is a dynamic network of many agents who act (develop) according to individual strategies (with limited information and resources), and these agents have many connections with each other, so they are constantly both acting and reacting to what others are doing i.e. they are adapting to the environment. Because of these constant interrelation, changes are not linear or straightforward and small changes can cascade into big consequences and big efforts can produce very little apparent change.

11. CASE STUDY: GROWTH FORECASTS FOR THE YEAR 2008

IMF world economic forecasts (World Economic Outlook-WEO) are based on multi-country macroeconomic model called Global Economy Model (GEM), which replaced MULTIMOD created in late 1980s (IMF, 2004). The World Economic Forecasting Model (WEFM) was developed to allow the UN Development Policy Analysis Division to produce forecasts for the global economy for use in its flagship publication (World Economic Situation and Prospects-WESP). The WEFM evolved from the original Project LINK programme, which started in the 1960s (Altshuler, C., et al. 2016).. The World Bank has its own macroeconomic model. How all these sophisticated models of key global institutions have made a mistake in the forecasts of economic growth for 2008 is presented in following tables.

Table 1: IMF World Economic Outlook: Real GDP growth rate (%) for the year 2008.

	Oct. 2007	Oct. 2008	Oct. 2009	Oct. 2012
	Projection	Projection	Estimate	Final estimate
World	4.8	3.9	3.0	2.8
Advanced economies	2.2	1.5	0.6	0.1
Emerging and developing countries	7.4	6.9	6.0	6.1

Source: IMF WEO Database

Table 2: WB Global Economic Prosepects: Real GDP growth rate (%) for the year 2008.

	2007	2008	2010
	Projection	Projection	Final estimate
World	3.5	3.3	1.7
High income countries	2.8	2.2	0.4
Developing countries	6.1	7.1	5.6

Source: WB GSP Database

Table 3: UN World Economic Situation and Prosepects: Real GDP growth rate (%) for the year 2008

	2007	2008	2010
	Forecast	Forecast	Final estimate
World	3.6	3.4	1.9
Developed economies	2.5	2.2	0.5
Economies in transition	6.7	7.1	5.5
Developing countries	6.2	7.1	5.4

Source: UN WESP Database

Every note of those forecasts and the results is redundant. One can only ask whether anyone would trust his own money (and not the national economy) to financial institutions (IMF, WB) who first predicted that he would make a return of 4.8 (3.5) %, and at the end yield is the half of that and in the particular case (developed countries) instead of the expected 2.2 (2.8) %, it was only 0.1% (0.4) %. Most probably not!

12. CONCLUSION

It is clear that there is a big gap between the increasing complexity, uncertainty and information scarcity of modern economy and the analytical tools that try to address this complexity and forecast the economic development and growth. Economists should be much more modest about the possibilities of accurate predictions using economic models with unrealistic assumptions. Lawrence Klein once has said: "the complex simplifications of infinitely more complex economic systems, many of which analyze the interactions of hunderds of variables, are useful to economists, political scientists and government as long as the limitations inherent in any model of a more complex system are taken into account (Klein, 1981)". The emerging "chaos theory" showed that with nonlinear systems precise prediction was often impossible (Hodgson, 2011).

Nonlinear models can be so sensitise to initial conditions that tiny changes lead to very different results. The existence of chaos affects the scientific method itself. One of the most promising techniques to deal with complex systems is agent-based models (ABM), which is a good method of studying systems exhibiting the following two properties: (a) the system is composed of interacting agents, and (b) the system exhibits emergent properties, that is, properties arising from the interactions of agents that cannot be deduced simply by aggregating the properties of agents (Axelrod, 1997, pp. 206-229). Standard econometric uses economic theory, mathematics and statistics to quantify economic phenomena, but, the famous GIGO (garbage in - garbage out) principle of computing also applies to econometrics - just because something can be computed doesn't mean it makes economic sense to do so.

In practice computer models are like "black boxes" and often not so ideal, because they are very poorly documented and technically complex that no one can really examine their basic assumptions. Can models with unrealistic assumptions, then, be of any use in understanding of the world? (Gibbard and Varian, 1978)

***All predictions are wrong, that's one of the few certainties granted to mankind.
Milan Kundera (Ignorance, 2002)***

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INCREASING THE PROFITABILITY OF MULTINATIONAL COMPANIES THROUGH TAX HAVENS

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ABSTRACT

The multinational companies are very important part of the international business and international banking. Also, due to its size and scope of business, they are representing the most important entity that occurs in the international market. The main goal of all companies, including multinational companies, is the maximization of profits and expand to as many markets, while reducing costs. Barriers in these company goals is reflected through certain fees which occur in the business. Due to the increasing that fees, multinational companies have begun to resort to tax evasion. An instrument that is most commonly used for minimizing costs, is "tax haven". The authors of this article investigated thoroughly the benefits that this type of business offers. Will be mentioned and geographic locations of "tax havens", as well as the benefits that each of location offers. Based on terminological clarification of terms, will be analyzed examples of companies that have increased their profitability, due to such operations.

Keywords: *international bussines, multinational companies, profit maximization, minimization of costs, tax havens*

1. INTRODUCTION

Multinational companies are the most important entity in the international business, which appeared as a result of the globalization process. Their strength is so great that it could be said to have the ability to create trade and to control the economic - political relations between the countries. In this paper, authors will define the concept of multinational companies, the forms in which they can appear and the characteristics of some of the most important in the global business. Tax havens are specific territories or countries where there is no tax liability or it is considerably lower than in other countries of the world. Multinational companies transferred their profits meaningfully to the territories of tax havens. In this paper will be presented individual tax havens which are highlighted by international institutions. Also, we will explain the main reason why the multinational companies transfer their profits on these destinations. Despite the large scope of business which is done in this way, some countries try to prevent that kind of business. However, to do that they should be legislation are related to this type of regulation synchronized throughout the world, which is certainly will not happen in the nearest future. We have selected two multinational companies, which in scope and manner of operations occupying the position of one of the most important companies in order to illustrate that such companies resort to tax evasion. In the case of Google and Apple can clearly see the way in which performs tax evasion.

They have defined strategies that they use for this intention. We raises the question who is the winner in such activities of multinational companies. Also, consider whether exist losers in this kind of way of business?

2. DEFINITION OF THE TERM MULTINATIONAL COMPANIES

Multinational companies have arisen due to the development of international trade and international markets. Different authors have explored the concept of multinational companies, calling them different names (transnational corporations, multinational corporations, transnational companies, supranational companies). The name for these companies, which is the most accepted is a transnational or multinational company formulated by David Lilijenhof beginning of 1970's. The phrase multinational and transnational companies used the methodology of the UN. However, when the UN using these two terms according to the difference was made of capital which have been established. Multinational companies were considered to be as companies whose management based on joint capital which originates from at least two countries, and if the capital originating from only one country, it is a characteristic of transnational companies.

Some authors multinational companies define in the narrower and broader sense. Vukadinović under the broader definition of multinational companies as any company whose activity is not limited only to the area of one state, but their activity is performed in at least two states. According to the narrower understanding under multinational company to include only those that are based multinational equity, i.e equity that originates from sources located in the different countries or that require the use of multinational decision making system (Vukadinović, 2012, pp. 213).

The crucial for these types of companies is that they have their headquarters in different states. The goal of the business of each of these companies is to find the best solutions that increase the profit of the parent company. The parent company is managed and controlled subsidiaries, due to its primary objective, increase the company's value. On the basis of such a way of doing business, the parent company is rapidly developing and becoming a leader in the global market. The forms of multinational companies that are so far in the text are defined represent the concentration of capital connecting a large number of companies in order to achieve a common goal, without the creation of a new entity. There is also different way of connecting companies accounting for the new entity, which will permanently execute business activities. In establishing the new company there exist the following forms: trusts, cartels, syndicates, consortiums, etc. In the next section, authors will be pointed out briefly the basic features of the aforementioned forms.

3. THE FORMS OF MULTINATIONAL COMPANIES

Affiliation is a company in which the investor is resident in another country has a participation that allows the achievement of lasting interest in the management of that company (usually up to 10%).

A subsidiary is a company in the host country in which another entity directly owns more than half the shareholders' rights to vote and have the right to appoint or dismiss the majority of members of the administrative, management and supervisory bodies - the board

Associated company is a company in the host country where the investor owns at least 10% but less than half of the shareholders' rights to vote.

Branch is a company in the host country, which is a wholly or jointly owned.

The trusts arise when a third company manages a large number of joint trading companies. Name was created from Anglo-American law trustee. In today's business occurs in the form of a holding company, where the parent company manages other companies. The previous practice demonstrated that these companies formed in two ways: by consolidating and buying

a majority vote. In the case of consolidation, they will merge at least two companies, whereby they will remain separate entities. Buying votes, the parent company redeems shares in a value that is required for voting rights.

The cartel besides economic cooperation also includes legal connecting companies in order monopolistic position on the market. In this form of multinational companies are merged companies in similar industries or that are complementary, and it represents a form of horizontal connections. The merged companies are losing independence in operations and business commitments established through cartel agreements.

As a special form cartels emerge syndicates, which are separate legal entities, which perform part of the economic activities they perform cartels. Most commonly this part refers to the sale of products.

Consortiums are a type of merger of organizations for the purpose of execution of business activities. Organizations that is most commonly associated in the consortium are banks, to assist financing more demanding business partners. Besides banks often establish consortiums and other financial institutions as well as other business organizations.

4. FROM WHICH COUNTRIES COME THE LARGEST MULTINATIONAL COMPANIES

The largest number of multinational companies are the parent companies from the United States. Of the 500 largest multinational companies even 162 have seats in the US. Of the world's 100 largest economic entities, 69 are corporations. Figures that tell how much powerful corporations that the 10 most powerful corporations in the world economic more powerful than 180 countries worldwide. Bearing in mind that in the world exists 195 countries we come to incredible results.

Top the list the most powerful corporation is a US company Wal-Mart with an income of 485.7 billion dollars. Wal-Mart is a corporation that owns a chain of supermarkets, shops and department stores. How are influential multinational companies depicted by the fact that their annual profits of about 30 billion dollars. Interestingly research is that in the 20 largest corporations contains 4 oil corporation, then followed by banks and major car manufacturers. According to some estimates the world has even 82,053 parent companies who had 807,363 affiliates abroad (Kapor, 2013, pp. 25). How much corporation are powerful tells us the fact that the Republic of Serbia on 273 place of the most powerful economy, and that is in front of her a large number of corporations that are more powerful than the states themselves.

Table 1: The largest companies in the world (<http://beta.fortune.com/global500/>)

	Company	Country	Revenue
1.	Wal-Mart	US	\$482,130
2.	State Grid	China	\$329,601
3.	China National Petroleum	China	\$299,271
4.	Sinopec Group	China	\$294,344
5.	Royal Dutch Shell	Netherlands	\$272,156
6.	Exxon Mobil	US	\$246,204
7.	Volkswagen	Germany	\$236,600
8.	Toyota Motor	Japan	\$236,592
9.	Apple	US	\$233,715
10.	BP	UK	\$225,982

5. THE IMPORTANCE OF MULTINATIONAL COMPANIES IN INTERNATIONAL TRADE

Multinational companies with its size represent a very important segment of the international business. The trade volume which they realize, considerably contributed to the increase in international trade and the liberalization of international markets. Certain authors who have dealt with this topic by analyzing data on world trade came to the information that the 200 largest multinational companies control 50% of world trade. The significant part of the trade which they perform represents trade between the companies themselves, the so-called intra company trade. However, the exceptional growth of these companies leads to major disruptions in the market. The companies which its structure doesn't belong to this group, are easily excluded from the market competition. Among other things, multinational companies have a strong impact on economic - political structure of the domestic state. Often leads to conflict of interest due to the different targets that have multinational companies in relation to the state. For the purpose of defining the status and role of multinational companies, international organizations, including the UN organizations have turned attention to the behavior of transnational companies. For this purpose in the context of the UN and UNCTAD in 1975 formed the Commission and the Center on Transnational Corporations (Vukadinović, 2012, pp. 216). Task of entity formed to define the rules per which to transnational corporations behave. Problem of behavior of multinational companies and been the focus of within the OECD, which was also adopted certain documents. However, due to lack of specific and defined rules, multinational companies still have complete freedom in its operations and represent an even larger segment of the international trade in goods and services.

6. DEFINING THE CONCEPT OF TAX HAVEN

Taxes are the most important form of public revenues of the state. Gnjatović defines taxes as an instrument of public revenue which the state confiscated coercive way funding entities under its tax authority, without direct compensation, in order to cover their own financial needs and achieve certain objectives of economic and social policy (Gnjatović, 1999, pp. 37). Also, this form of public revenues has the function of the main instrument to collect all forms of foreign investment. If countries want to attract foreign investors to invest, taxes will be lower percentage. Otherwise, if the country wants to stop the inflow of foreign investment, it will raise the amount of the tax, which will act disincentive to foreign investors.

The aim of attracting foreign investors, countries have their tax rate decreased more and more, thus resulting in the appearance of countries that have a zero tax rate. Countries that have very low or zero tax rates are called tax havens. Such a system of taxation has a negative effect on the budget of the country. As a result, the reduction of social welfare in these countries.

In international trade, tax havens have proved to be a tool used by multinational companies, in order to "avoid" the costs of taxation. Popular also called offshore centers. The aim of attracting investment, in addition to the abolition of tax rates, these countries have started to implement the principle of "banking secret".

Workman defines a tax haven as a state or territory of a country where there are certain categories of taxes or tax rates are relatively low, and where it is possible to achieve a high degree of privacy with regard to banking and commercial secrets (Workman, 1982, pp. 678).

7. THE CHARACTERISTICS OF TAX HAVENS

There are different understandings of individual authors of the concept of tax havens, and consequently on determining which country belongs tax haven. The problem in the literature is that there is no single list of countries in tax havens, but she is determined according to the estimates of the author. According to the lists of individual authors found out that there are approximately one hundred countries that their characteristics belong to the group of countries

that are called tax havens. According to addressing their economic and demographic characteristics, we find that this small country in terms of population, which have a very high income. Also, the rate of economic growth which these countries have continuously higher than the world average.

In the absence of numerous definitions, the OECD has defined a set of four key criteria that determine tax havens:

- the absence or the presence of low nominal tax rates,
- the lack of effective exchange of information with foreign countries,
- lack of transparency of the tax system,
- the absence of specific economic activities, ie. Investments are generally realized to take advantage of favorable tax policies (Addison, 2009, pp. 705 - 706).

The increase in trade as a result of the globalization process, favorably influenced the development of the tax havens. The inflow of foreign investment, fueled by economic growth that began to move well above the world average. However, a large number of countries providing resistance to such a system of taxation, primarily because of the fact that countries tax havens perform "trade deflection" and encourage tax evasion. Governments of countries considered tax havens that the inflow of foreign investment significantly exceeds the level of public revenues from taxes.

8. THE BATTLE AGAINST TAX HAVENS

Due to large capital inflows to these countries, the suspected origin of the capital. The doubts are caused by the lack of information on the manner in which capital is acquired. Organization for Economic Co-operation and Development (OECD) have become aware of the illegal transactions were carried out through these offshore centers. The war against tax havens initiated by the publication of a "black list" in 2000 by the OECD, which was a list of these countries. All countries from the "black list" was threatened with sharp economic sanctions if its tax policies are not implemented as "normal world". The threats have brought results, as early as 2001 to reduce the list of 32 countries.

Table 2: „Black list“ OECD 2001 (Prvulović, 2010, pp. 266)

1. Andorra	17. Liberia
2. Anguilla	18. Liechtenstein
3. Antigua and Barbuda	19. Maldives Islands
4. Aruba	20. Marshall islands
5. Bahamas	21. Monaco
6. Bahrain	22. Montserrat
7. Barbados	23. Nauru
8. Belize	24. Niue
9. British Virgin Islands	25. Panama
10. Cayman Islands	26. Samoa
11. Cook Islands	27. Saint Lucia
12. Dominika	28. Saint Kitts i Nevis
13. Gibraltar	29. Saint Vincent and the Grenadines
14. Grenada	30. Tonga
15. Girnsej	31. Turks i Caicos
16. Jersey	32. U.S. Virgin Islands

Countries which are listed in Table 2, were forced by the OECD countries to abolish the the secrecy of account, ie. that business of their banks be transparent. In fact, this move was followed by the OECD, primarily because the offenders from different parts of the world their illegal migration transfer earned money in a tax haven country. Among other things, the country's tax haven also serve ordinary citizens who using benefits countries to avoid paying taxes in their own countries.

The fight against tax havens and illegal activities carried out in them has joined the International Finance - Action workgroup for Prevention of Money Laundering (FATF). FATF in 2000 - 2001, launched a campaign for passing instruments to prevent "money laundering". During this period he has published list of 23 countries where it is observed absence or presence of a very low tax rate. On that list are the following countries: Bahamas, Cayman Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevis, St. Vincent and the Grenadines, Egypt, Grenada, Guatemala, Hungary, Indonesia, Myanmar, Nigeria and Ukraine (FATF, 2001, pp. 12).

After the published list, most countries have adopted the required conditions for battle against money laundering. Action FATF was successful, because according to their data, since 2006 there is no country in the list of non-cooperative countries and territories.

9. HOW MULTINATIONAL COMPANIES EXECUTE EVASION?

Offshore financial centers, offshore companies and other offshore entities are considered as one of the most widespread forms and modalities for various forms of illegal activities (FATF, 2006, pp. 2). The authors in this part of the paper explains how to establish parts companies in "tax havens".

In order to perform the establishment of the company in offshore centers need to meet three basic conditions:

1. The right of establishment have a legal and natural entities who are not residents of the country of establishment,
2. Funds for established companies must be gained outside the borders of jurisdictions tax haven,
3. All revenue that is realized should be originate outside the boundaries of the offshore center.

When we talk about legal norms, mainly all of tax havens have similar laws about the companies which regulate the establishment and business operations of companies on their territory. If a individual or legal entity decides to establish a company in an offshore center for that he will not be necessary a big paperwork, and in the establishment is not necessary to his presence. For the purpose of establishment, there are agencies which specialize for this work. These agencies offer a set of services for the establishment, and in return expect revenue from commission fees, and the owner pays a fee for the establishment of authorities. When you add up all the costs, it is necessary to set aside 1,000 to 2,000 USD to to set up offshore companies. The requirement that a company to continue its operations for many years is the payment of the annual fee. The amounts that are required for this type of cost ranges from 100 to 300 USD in depending on the country. Also, many offshore centers set up for the condition of presence and registered office in the tax havens and the appointment of at least one director to the area. These costs usually take over the specialized agencies that have their own "package" included the cost of rent and wages "directors".

As proof of the existence, the company shall issue a certificate of registration of certifying that does business under the laws of a specific territory. Certificate issued by the Register of Companies and includes: company name, number and date of registration. Certificate should have the the apostille, which represents the confirmation issued by the competent body of the

country of registration, which guarantees the authenticity of the certificate of incorporation, how to ensure that this certificate is valid and outside the country of incorporation (Kapor, Tošović, 2016, pp. 212).

After the companies make a successful registration, in the further company's business government bodies of that jurisdictions do not carry out further inspection, because offshore companies does not perform their business within the limits of the territory in which it is established. These benefits provide offshore centers, encouraging multinational companies to set up subsidiaries in these areas, in order to achieve their fundamental objectives of maximizing profits at lower cost.

10. BUSINESS OF THE FAMOUS MULTINATIONAL COMPANIES OVER OFFSHORE CENTERS

Multinational companies through its operations create millions of revenue, so large that they are larger than the gross domestic product of most countries in the world. Taxation of millions in revenue would be a big expense for these companies, and therefore they strive avoidance of payment. The authors in this work will show statistics than illustrating the how one of the most successful companies in the world perform evasion of payment of taxes. In the following part of the paper will be presented with a list of companies that perform their business in the areas of "tax havens".

Table 3: Top 15 Companies with the Most Money Held Offshore 2012

(<https://www.forbes.com/sites/connieguglielmo/2013/08/01/apple-google-among-top-u-s-companies-parking-cash-offshore-to-reduce-taxes-study-says/#1580e2e11bba>)

	Company	Amount Held Offshore (Billions \$)	Number of Tax Haven Subsidiaries
1.	General Electric	108	18
2.	Apple	82.6	3
3.	Pfizer	73	174
4.	Microsoft	60.8	5
5.	Merck	53.4	151
6.	Johnson & Johnson	49	55
7.	I.B.M.	44.4	16
8.	Exxon Mobil	43	36
9.	Citigroup	42.6	20
10.	Cisco Systems	41.3	47
11.	Abbott Laboratories	40	107
12.	Procter & Gamble	39	43
13.	Hewlett – Packard	33.4	2
14.	Google	33.3	2
15.	PepsiCo	32.2	160
	Total:	776	859

A large number of US companies use various tricks to avoid paying taxes. As we can see from the table, the value passed in the country of tax havens for the 15 companies amounts to 776 billion USD. According to data from Forbes, multinational companies have avoided about 90 billion USD tax payments through its subsidiary companies. Subsidiaries 15 researched companies are open to a total of 859 locations "tax havens". The largest revenue reported the General Electric Company, through its subsidiary companies, which are at 18 locations. Pfizer is a record in the number of open affiliates in tax havens with 174 affiliates in those locations.

11. OPERATIONS OF GOOGLE AND APPLE THROUGH TAX HAVENS

The authors from the supplied list of companies that operate in tax havens decided to devote more attention to companies Apple and Google, as one of the largest companies in the world. Millions revenues realized by the two companies, are subject to higher tax rates in the United States. In order to observed the company managed to maximize their own profits, they are subject for the tax evasion. The company uses Google legal law structure that preserves the \$ 3.1 billion since 2007. By observing total revenues of Google and there is a noticeable increase compared to the years preceding 2007 by 26%. Observing the companies from the same sector, the company Google leads in reducing tax costs. At the Bermuda there is no payment of income tax. This situation uses the company and Google through their companies established in Ireland and the Netherlands money "transferred" on these islands. In the case of of this company the whole process works like this: When Google affiliates that are located in countries with high tax rates generate profits, then they then transferred to a Google company headquartered in Ireland. The rate of profit tax in Ireland is 12.5%, but Google successfully avoided paying taxes because costs are kept short in Dublin. However, the Irish Government enactment of various laws prevent sending money directly to Bermuda. The solution lies in the fact that Ireland may not prohibit transfers to other countries of the European Union. In this way, Google profits transferred to the Netherlands through which continue further trip to Bermuda. Google affiliates in the Netherlands is a without employees, and thus the whole collected profit continues its further path. Subsidiary companies in Bermuda is technically a profit which creates company in Ireland. Therefore, it is often popularly this method is called "Double Irish".

Google company all of these activities carried out in conformance with the law, and thus have a specially made "tax strategy". There is a danger from the United States who are trying to force the company Google that their profits realized in their territories that are taxed, to reduce the budget gap. The licensing agreement allows Google to attribute its overseas profits to its Irish operations instead of the US, where most of the technology was developed (<https://www.bloomberg.com/news/articles/2010-10-21/the-tax-haven-thats-saving-google-billions>).

In this paper, the authors describe and tax evasion in the case of yet another multinational company, Apple. The company whose business will also display from the information technology industry, whose products are distributed throughout the world. Apple carries on business in a similar way as it makes Google. However, in case of this company only foreign profits amounting 60% of the total profit is transferred through affiliates located in Ireland. The company in Ireland was established as a holding company. Among other things, in Ireland there is another company that is owned by a holding company, which cooperates with Chinese manufacturers. Apple avoids paying high tax rates in the US, while in Ireland has a special treatment. Holding companies whose operating in the territory of that country have not paid taxes last years. This allows the company to Apple most of the income generated from the sale of tax-nobody. The US is this bothered, because most of the revenue goes outside borders and therefore does not fall in public revenues. Apple affiliates in Ireland are not integrated into the tax agreement between the two countries, and therefore there is a legal way for the business and tax evasion. It is important to emphasize that the observed company has partnerships with other companies from Ireland in respect of intellectual property rights.

Although legally avoid paying taxes on the way they do Google and Apple, can not be regarded as ethical. Especially because companies stand out in the public fair business, but neither by themselves do not comply. The biggest losers in this case are citizens of the USA, because the profit of the product which occurred on the territory of their country does not end in the budget.

12. FINAL CONSIDERATIONS

Multinational companies in global competition occupying an important position. Their business volume is quite impressive and significantly changed the way of doing business on the international market. They are a symbol of globalization, which extracts from the market all small and medium enterprises. Also, they perform and exploitation of resources and manpower without specific reference on economic - social environment. With the help of high earnings they make, multinational companies have gained addition to the economic and political power. The power which they possess allows them to change laws and thus affect the social life. Despite the fact that with the help of cheap labor and resources achieved astronomical revenue, multinational companies in all ways trying to commit tax evasion. In this way successfully managed to maximize their profits. When an objective consideration, we have to note that multinational companies in addition to a multitude of negative influences have a positive impact. This primarily reflected through development of the economy and employment of the population in underdeveloped countries, as well as the development of technology. The best example of this companies have just observed in our work. However, the negative impacts are much higher and exceed the positive. Tax havens are the basic tool which multinational companies ensure undisturbed operation. Despite the great battles of world organizations against tax havens, and today they are functioning smoothly. With the help of their "benefits" comes to major conflict between multinational companies and the State Government. The biggest losers in this mode of operation are Governments, their budget, and residents of the state. Due to the lack of legal regulations, multinational companies fail to take their profits out of the countries that taxable profit to "secure location". In this way, the money doesn't end in public revenues countries already is redirected to sites that don't perform taxation. The population that generates profits by working for the multinational companies, there is without income that could be used for their own purposes. The question is whether the population is consciously the loss of this type of evasion creates or are too "satisfied" with their pay to get it noticed. Multinational companies were sometimes "surprise" with various bonuses, and thus were able to reduce the risk of dissatisfaction.

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GLOBALIZATION AND CHALLENGES OF THE MODERN WORLD THE PROTECTION OF NON-STANDARD WORKERS

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ABSTRACT

The aim of the paper before us is to present the changes in the labor market that have been brought about by the economic crisis, the change in employment and some of the ways of their regulations. In the introductory part the consequences of the crisis that are, as it appears, obvious and affect all countries are presented. In the second part, legal regulation of entering into employment in Serbia, legal regulation of fixed-term contracts, the possibilities of converting it into a contract of indefinite duration, legal understanding of the Supreme Court of Cassation of this issue, legal regulation of work outside employment, the statistics of employed men and women on contracts of indefinite duration, fixed-term contracts, seasonal jobs and occasional tasks are briefly introduced. Third part deals with the legal protection of the workers who have been employed on fixed-term contracts for a large number of years and the decision from the judicial practice of the Supreme Court of Cassation of Republic Serbia that refers to the possibility of shifting from fixed-term employment into indefinite employment, as well as some of the understandings expressed in the decisions of the European Court of Justice of the fixed-term contract and its conversion into indefinite contract that this Court stated based on the request of Member States regarding the interpretation of the Framework Agreement on fixed-term work. The forth part offers the problems that non-standard workers face and solutions proposed by certain countries in order to protect these workers. Conclusion and suggestions are to be found in the fifth part of the paper.

Keywords: *Atypical, non-standard, flexible employment forms; the definition of “fixed-term workers”, the employment transformation*

1. INTRODUCTION

The consequences of the economic crisis (privatization, unemployment, the changes in the manufacturing structure, "manufacturing migration", market loss, computerization), particularly in underdeveloped countries, are, as it seems, evident. They comprise¹:

1. a huge number of redundancies due to the restructuring and modernization of the companies in order to reduce costs and competitiveness
2. flexibilization of work², especially the appearance of new forms of non-standard employment³

¹ Enumeration is not exhaustive

² Apart from non-standard employment, flexibilisation of work includes internal and external, functional, financial, flexibilisation of hours of work as well as flexible work organization

³ “One of the most influential definition of nonstandard workwrs was provided by Pfeffer and Baron(1998) who categorized nonstandard workwrs into three broad groups: those who have a limited temporal attachment to organizations like temporary and part- time workers, those with limited physical attachment to the organization like teleworkers or those who work at home, and those with limited administrative attachment to the organization like those who are employed through labour intermediaries or are independent contractors. They proposed that these workers differ from standard workers who have fixed hours of work,work on indefinite contracts,at a fixed location of work. And under the direct administratitive control of their employer.” Non standard work and workers

3. decrease in the number of workers on indefinite contracts and increase in the number of fixed-term workers, workers on the basis of temporary and casual employment, increase in the number of part-time workers, on-call work, workforce rental (leasing), redistribution of working hours, longer vacations, reform of the retirement system, etc.
4. new professions, a demand for different qualified workforce and the gap between the demand for new professions and the existing workforce.

All of the above mentioned in sociological plane results in migration of population, poverty due to lower wages as well as reduction in workers' rights.

Balance should be achieved between the demands for increased flexibility in the labor market on the one hand and establishment of a certain level of social protection for workers and their families on the other. In that sense, effective policy of the labor market is necessary. It should be implemented by the state following a detailed analysis of the labor market condition- number of employees as well as unemployed people, hired on various basis, the use of flexibilisation of employment and (dis)respect of workers' rights. For now, states have been dealing with the problems that the new forms of work have brought and atypical workers' status resolution.

This paper will try to present the position of workers on fixed-term employment contracts and their protection (the possibilities of conversion of such employment) as well as the possibilities for protection of other non-standard workers.

2. EMPLOYMENT AND WORK OUTSIDE EMPLOYMENT

Dominant form of employment in Serbia is employment contract of indefinite duration. According to the Labor Law⁴: Employment is based on employment contract concluded between the employer and the employee. The contract is considered concluded when signed by both the employer and the employee. It can be concluded on indefinite or definite duration. Employment contract that does not state the duration of contract validity is considered to be employment contract of indefinite duration. Employment contract is concluded before the commencement of employee's work, in written form. If the employer does not conclude an employment contract with the employee, it is considered that the employee has entered into employment of indefinite duration on the date of commencement of the work (article 30,31,32). Labor Inspector has a great role in controlling the employers in fulfilling their legal obligation- concluding employment contracts. According to Inspector's report in 2012, during the total of 37,061 inspection supervisions in that year, 156,664 persons were found working. Out of that number, 6,403 persons worked illegally. Following the supervisions, employment contracts were concluded with 4,781 persons (74.7 %) ⁵.

In addition to this contract, employment of definite duration can be entered into for high-risk jobs, part-time jobs, for completing tasks outside of employer's premises and employment relationship with housekeeping staff.

The share of workers on the basis of fixed-term employment has been rising since 2009, while the number of workers on contracts of indefinite duration has been simultaneously falling. According to the data provided by Statistical Office of the Republic of Serbia⁶ 897,884 men and 731,856 women were employed on contracts of indefinite duration in 2008. That number

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⁴ Official Gazette 24/05, Law on Amendments to the Labor Law Official Gazette 75/14

⁵ Labor Inspector's Report for 2012, available at www.minrzs.gov.rs

⁶ Statistical Office of the Republic of Serbia, www.stat.gov.rs

was declining and thus 714,539 men and 602,232 women were employed on contracts of indefinite duration in 2013. A small rise was noticeable in 2014 (755,714 men and 663,238 women), and a small fall in 2015 (740,511 men and 665,420 women).

In 2008, 82,904 men and 67,218 women were employed on fixed-term contracts. In the next two years that number was dropping, while it has been rising since 2011. Then, in 2011, 88,895 men and 66,425 women were employed in this regime. Those digits turned into 165,062 men and 137,022 women in 2015.

In 2008, 33,182 men and 12,499 women were hired on seasonal jobs. Those numbers were declining until 2012, when 9,256 men and 3,679 women were engaged only to start rising again in 2013 when 12,826 men and 3,857 women were engaged. In 2015, those numbers were significantly larger- 25,420 men and 11,481 women.

In 2008, temporary work was performed by 30,825 men and 10,837 women. Those numbers were declining during the following two years, then they were stagnating, and since 2013, when 20,326 men and 13,038 women were employed, they have been ascending. In 2015 those numbers were even larger - 33,084 men and 19,810 women.

2.1. Fixed-term Employment (article 37)

According to the Labor Law of Republic of Serbia, fixed-term employment contract can be concluded on definite duration, for entering into employment whose duration has been previously established by objective reasons that are justified by a deadline, completion of a certain task or the occurrence of a certain event, during the continuation of those needs. (paragraph 1)

The employer can conclude one or more employment contracts from paragraph 1 of this article based on which the employment relationship with the same employee cannot, with or without intermissions, exist for longer than 24 months. (paragraph 2)

Intermission shorter than 30 days shall not be considered as an intermission from paragraph 2 of this article. (paragraph 3)

Outside of paragraph 2 of this article, fixed-term employment contract can be concluded:

1. if that is necessary in order to replace a temporarily absent worker, until they return;
2. for project work whose duration has been established in advance, the longest until the end of the project;
3. with a foreign citizen, based on their work permit in accordance with the law, the longest until the expiration of the permit;
4. for completing tasks for a newly-founded employer whose entry into the competent body register is not older than one year in the moment of employment contract conclusion, for time whose total duration is not longer than 36 months;
5. with the unemployed who need up to five years to fulfill one of the conditions for age pension, the longest until the fulfillment of the condition, in accordance with the regulations on pension and disability insurance.(paragraph 4)

The employer can conclude a new fixed-term employment contract with the same employee following the expiration date from para. 4 clause 1-3 of this article on the same, i.e. different legal basis, in accordance with this article. (paragraph 5)

If the fixed-term employment contract is concluded against the provisions of this law or if the employee continues working for the employer at least five working days after the expiration of the contract, it is considered that the employment of indefinite duration has commenced. (paragraph 6)

With the aim of more in-depth interpretation of legal provisions on fixed-term employment and the transformation of fixed- term into employment of indefinite duration, the Supreme Court of Cassation on 25th December 2012 took a stand which, following the amendments on Labor Law, is:

1. the employer and employee can conclude one or more successive fixed-term employment contracts for the same position, whose total duration without or with intermissions shorter than 30 days cannot be longer than 24 months.
2. should the employer and employee conclude a fixed-term contract following the expiration date of two years on equivalent positions, and the employee works longer than five working days, the conditions are met for the fixed-term employment to convert into employment of indefinite duration.
3. 60 days time limit for filing a lawsuit for confirmation that a fixed-term employment became employment of indefinite duration starts on day when dismissal decision letter has been delivered, i. e. factual termination of employment.

In accordance with the explanation of this stand, legislator commands the employer that employment with or without intermissions cannot last longer than 24 months. That is the key limiting provision in the cited norm. Within that time limit, more successive contracts can be concluded. However, as soon as five days pass after the expiration of one contract or the end of two years (with the hypothesis that the employee has worked on equivalent positions), the rule of conversion is activated, regardless of the possible conclusion of a new contract, thus the conditions have been met for the employment to develop into employment of indefinite duration. In addition, there is a prohibition of illegal work, elimination of fictitious work and the effect of rules on fictitious entering into employment. The conclusion of a new employment contract after two years (all based on the hypothesis that the jobs are the same) does not produce any legal effects since such a contract is prohibited by the provisions in the first paragraph.

There is no collision between the rule on restriction and the phrase “expiration date of the employment” since, as aforementioned, they are two different situations. They should be interpreted in connection where the command of the law on limit and restricted duration of the fixed-term employment has advantage.

Therefore, fixed-term employment can be established several times for the performing of certain jobs, but total duration on successive contracts cannot be longer than 24 months. While calculating the time, the duration of every fixed-term employment is added and their summation cannot be larger than the one prescribed by law.

If in case of performing equivalent jobs for the same employer, every successive contract is treated as a separate contract, the law (as well as international standards) would be abused, and thus the employer could misuse the rule on time limit of fixed-term employments. Abuse of the rights is prohibited (article 13 of the Law of Contract). That rule is subsidiary applicable in the subject matter of labor law since the employment contract originated and has its roots in civil law and tenets (principles) that refer to contract law in general regime are subsidiary applicable here.

Everything previously said for successive contracts refers also to situations when the employer, following the successive contract expiration, dismisses the employee and then enters into a new contract with them. In that case, as well, the crucial rule on total duration of fixed-term employment is applicable (and has precedence)⁷.

2.2. Work outside employment: temporary and casual employment, service contract and bywork

Temporary and (short-term) casual jobs – article 197,198

⁷ The Supreme Court of Austria reasons in the same way. In its report to the seventeenth Congress of the European Association of Labour Court Judges in Brussels 2013, Austria, among other things, stated: “The Supreme Court has stated that it is basically possible to work for the same person under two separate contracts (one employment contract, one contract for services) but it needs to be assessed whether the two tasks are really entirely separable with a view to their content and the time at which they are performed. Otherwise, all contractual relations need to be seen as a single employment contract.” Available at ealcj.org

Employer can conclude a temporary and (short-term) casual employment contract for performing of certain jobs that do not require longer than 120 days in a year with:

1. unemployed person;
2. employed person who works part-time to full-time;
3. age pension user.

Contract shall be concluded in written form.

Employer can conclude a temporary and casual employment contract with the person who is a member of a youth or student cooperative in accordance with regulations on cooperatives.

Service Contract – article 199

Employer can conclude a service contract with a certain person for tasks that are outside of employer's activity, and which represent independent production or repair of a certain object, independent completion of a certain physical or intellectual work.

Moreover, service contract can be concluded with a person doing artistic or other activity in the domain of culture in accordance with law.

Contract described in paragraph 2 of this article has to be compliant with a special collective agreement for persons doing activities in the domain of art and culture, if such a collective agreement is concluded.

Contract shall be concluded in written form.

Bywork – article 202

An employee who has a full-time job with one employer, can conclude a bywork contract with another employer, the longest up to one third of full hours of work.

The contract confirms the right to a wage and other rights and obligations on the basis of work. It shall be concluded in written form.

3. THE EMPLOYMENT TRANSFORMATION- EXAMPLES FROM JUDICIAL PRACTICE OF THE SUPREME COURT OF CASSATION OF REPUBLIC OF SERBIA

Case 1

The plaintiff entered into fixed-term employment with the defendant on employment contract on 25th September 2001, due to defendant's increased amount of work. He started working on 7th September 2001, and then he continued signing annexes to the fixed-term employment contracts with the defendant, always for three months, due to the increased amount of work. Last employment contract signed on 22nd February 2006 stated that plaintiff entered into fixed-term employment until 28th February 2006, due to increased amount of work. Following this date, the plaintiff continued working for the defendant until 11th April 2006 inclusive, when he received a dismissal decision letter.

Having in mind that the plaintiff had worked for the defendant for a large number of years on the basis of multiple concluded fixed-term contracts, and that he continued working after the expiration of the last fixed-term contract, the courts decided that fixed-term employment had converted into employment of indefinite duration⁸.

Case 2

⁸ Judgment of the Supreme Court of Serbia Rev II 1553/08 on 4th March 2009; Judgment of the Supreme Court of Cassation Rev2 30/12 on 9th May 2012;

The plaintiff worked for the defendant for four years on the basis of fixed-term employment contract. After the last fixed-term contract had expired, she concluded a temporary and casual employment contract for the period of 120 days during the year, after which she worked without any contract from 8th January 2007 to 17th January 2007, when the defendant offered her a new temporary and casual employment contract. Once the plaintiff refused such a contract, she was told not to come to work anymore. The courts established that the plaintiff entered into employment of indefinite duration since she worked without an employment contract in the period from 8th January 2007 to 17th January 2007. In addition, they refused defendant's assertion that employer's willingness to conclude a temporary and casual employment contract with the plaintiff should have been established since the defendant as an employer had that option. As he had not exercised his right until the plaintiff started working, she (plaintiff) was offered legal security by the law which imperatively prescribed that employment of indefinite duration was considered to have started on the first day of work in the given situation⁹.

Case 3 According to the defendant's statement, the plaintiff worked on equivalent positions longer than 12 months. Thus, the conditions from article 37 paragraph 4 of the Labor Law were met for fixed-term employment to be converted into employment of indefinite duration. The court decided: all concluded fixed-term contracts in given case shall be seen as one contract, since in terms of all contracts' significant elements (type of work that the plaintiff performed) there is no difference. If in case of performing equivalent jobs for the same employer, every successive contract is treated as a separate contract, the law would be abused, and thus the employer could misuse the rule on time limit of fixed-term employments from article 37. Abuse of the rights is prohibited under contract law (article 13 of the Law of Contract). That rule is subsidiary applicable in the subject matter of labor law since the employment contract is originally a type of civil legal contract and tenets that refer to contract law in general regime are applicable on it¹⁰.

Case 4

Before 2008 the plaintiff had worked for the defendant as an administrator which was described in the systematization act and was correspondent to her professional qualifications and position in the regime of fixed-term work. After the employment contract had expired on 15th April 2008, the plaintiff concluded a service contract with the defendant on 16th April 2008 which stated that she worked on "completion of certain reports" until 28th May 2008. After the service contract had expired, she entered into another fixed-term employment contract-for one year, due to the increased amount of work. Following that contract, a new service contract was signed for identical jobs. Finally, she concluded another fixed-term employment contract. The jobs that she was hired to do on the basis of service and fixed-term employment contracts were identical.

The courts established that the conditions for entering into employment of indefinite duration were met. Supreme Court of Cassation found that: The Labor Law, identically as The Law of Contract, defines service contract- completion of certain task such as production or repair of a certain object or completion of a certain physical or intellectual work. Specificity of this contract under the Labor Law is that it can be concluded between the employer and a person for doing tasks outside employer's activities. In given case, this special condition for the validity of service contract had not been met since the plaintiff did identical jobs during the time in question, all of which were comprised by employer's activity. In situation when previous fixed-term employment contract expired by the expiration time to which it was

⁹ Judgment of the Supreme Court of Serbia Rev II 1465/08 on 1st April 2009

¹⁰ Judgment of the Supreme Court of Cassation *PešII 829/10* on 20th October 2010

concluded, plaintiff's commencement of work with the same type and amount of work that was comprised by employer's activity, the employment of indefinite duration was entered into on the day of commencement of work. Fictitious employment contract is considered to be nonexistent contract also because of the fact the plaintiff started working and the conditions for the application of fictitious existence of employment from the quoted regulation were met as the employer consciously avoided the form of valid entering into employment. However, he expressed willingness to enable the plaintiff to work, while the plaintiff expressed willingness to work. In that mutual willingness it was obvious that there was an agreement on both sides to establish employment and it could be portrayed as employment contract¹¹.

Case 5

The plaintiff concluded multiple temporary and casual employment contracts with the defendant through a Youth Cooperative that lasted a year and a half, after which she concluded a fixed-term employment contract for one year during which she was granted a maternity leave as well as a leave to take care of the child. During the entire time, the plaintiff performed work on the same position systematized in the defendant's company.

The courts established that the plaintiff entered into employment of indefinite duration.

The Supreme Court of Cassation decided: all concluded contracts between the plaintiff and the defendant shall be seen as one contract, since in terms of all contracts' significant elements (type of work that the plaintiff performed) there is no difference. The legal nature of contract is not defined by its title, but rather by the essence of the legal relation that was entered into with it."¹²

EXAMPLES FROM JUDICIAL PRACTICE OF THE EUROPEAN COURT OF JUSTICE

- the definition of "fixed-term workers" for the purposes of the Framework Agreement, set out in Clause 3(1), encompasses all workers without drawing a distinction according to whether their employer is in the public, or private sector (judgment in *Adeneler and Others*, EU:C:2006:443, paragraph 56; *Della Rocca*, EU:C:2013:235, paragraph 34) and regardless of the classification of their contract under domestic law (judgment in *Angelidaki and Others*, C-378/07 to 380/07, EU:C:2009:250, paragraph 166)
- the definition of the contracts and employment relationships to which it applies are not determined by that agreement or by EU law, but by national law and/or practice, so long as those concepts are not defined in a manner that results in the arbitrary exclusion of a category of persons from the benefit of the protection provided by the Framework Agreement (judgment in *Sibilio*, C-157/11, EU:C:2012:148, paragraphs 42 and 51)
- the purpose of paragraph 1 of the clause 5 of the Framework Agreement is to implement one of the objectives of that agreement, namely to place limits on successive recourse to fixed-term employment contracts or relationships, regarded as a potential source of abuse to the detriment of workers, by laying down as a minimum a number of protective provisions designed to prevent the status of employees from being insecure (judgment in *Adeneler and Others* EU:C:2006:443, paragraph 63; *Deutsche Lufthansa* C-

¹¹ Judgment of the Supreme Court of Cassation Rev2 211/2014 on 29th October 2014

¹² Judgment of the Supreme Court of Cassation Rev21685/2015 on 29th December 2015

109/09,EU:C:2011:129,.paragraph 31)

- Clause 5(1) of the Framework Agreement requires Member States, in order to prevent abuse arising from the use of successive fixed – term employment contracts or relationships, to adopt one or more of the measures listed in a manner that is effective and binding, where domestic law does not include equivalent legal measures. The measures listed in Clause 5(1) (a) to (c) , of which there are three, relate, respectively, to objective reasons justifying the renewal of such contracts or relationships, the maximum total duration of successive fixed – term employment contracts or relationships, and the number of renewals of such contracts or relationships (judgment in Angelidaki and Others, C-378/07 to 380/07, EU:C:2009:250, paragraphs 74 and 151, Küçük C 586/10,EU:C:2012:39, paragraph 26, Marquez Samohano EU:C:2014:146, paragraph 42)
- the concept of “objective reason” must be understood as referring to precise and concrete circumstances characterising a given activity, which are therefore capable, in that particular context , of justifying the use of successive fixed – term employment contracts. Those circumstances may result , in particular, from the specific nature of the tasks for the performance of which such contracts have been concluded and from the inherent characteristics of those tasks or, as the case may be , from pursuit of a legitimate social policy objective of a Member State. On the other hand, a national provision which merely authorises recourse to successive fixed- term contracts, in a general and abstract manner by a rule of statute or secondary legislation , does not permit objective and transparent criteria to be identified in order to verify whether the renewal of such contracts actually responds to a genuine need and is appropriate for achieving the objective pursued and necessary for that purpose. That provision therefore carries a real risk that it will result in misuse of that type of contract and, accordingly , is not compatible with the objective of the Framework Agreement (judgment in Angelidaki and Others C-378/07 do 380/07, EU:C:2009:250, paragraphs 96,98,100, Küçük C 586/10 ,EU:C:2012:39, paragraph 29)
- the existence of an “objective reason” within the meaning of clause 5(1)(a) of the Framework Agreement thus precludes , in principle, the existence of abuse , except where an overall assessment of the circumstances surrounding the renewal of the relevant fixed-term employment contracts or relationships reveals that the services required of the worker do not meet merely a temporary need (judgment in Küçük C 586/10 ,EU:C:2012:39, paragraph 51)
- it is necessary to consider in each case all the circumstances at issue, taking account , in particular, of the number of successive contracts concluded with the same person or for the purposes of performing the same work , in order to ensure that fixed-term employment contracts or relationships , even those ostensibly concluded to meet a need for replacement staff , are not misused by employers (judgment in Küçük, C 586/10 ,EU:C:2012:39, paragraph 40)
- Clause 5(1) of the Framework Agreement must be interpreted as meaning that a Member State , which provides in its national legislation for conversion of fixed-term employment contracts into an employment contract of indefinite duration when the fixed-term employment contracts have reached a certain duration, is not obliged to require that the employment contract of indefinite duration reproduces in identical terms the principal clauses set out in the previous contract. However, in order not to undermine the practical effect of, or the objectives pursued by Directive 1999/70 , that Member State must ensure that the conversion of fixed-term employment contracts into an employment contract of indefinite duration is

not accompanied by material amendments to the clauses of the previous contract in a way that is, overall, unfavourable to the person concerned when the subject-matter of that person's tasks and the nature of his functions remain unchanged (judgment in Huet 251/11, EU:C:2012:133)

From the presented legal practice, it can be concluded that courts reason in the same way. The basic purpose is to protect workers through the prevention of employer's rights abuse. As shown, employers usually combine fixed-term employment contract with temporary and casual employment contract, but they can do that with other types of contracts as well, such as service contract. Certainly, the situations in which, between the two contracts, worker works without any type of contract whatsoever are not uncommon. It is important to state that regardless of the contract title that employer uses to enter into employment with the worker (contract title does not need to determine its essence and legal nature), the work and position that the worker had (type of work) is taken into account, as well as the time that the worker spent working-total duration of all concluded contracts, other rights: wages, vacations, leaves and real employer's necessities for performance of that work (whether they are temporary or permanent). The stand expressed in the Huet (C-251/11) decision that refers to the nature of employment contract of indefinite duration that the employer signs with the worker when the conditions for conversion have been met is especially significant.

Regardless of such arranged position, there are issues that have not been resolved. That is especially the case when it comes to exercising certain rights and benefits that refer to the length of service, since their employment is short (from one to three years the most). In that sense, there is a risk that this category of workers is denied certain rights that are exercised depending on the length of service and seniority (e.g. the right to a professional development leave, higher wage, additional days of paid annual leave, the entitlement to a jubilee award)¹³.

4. THE STATUS OF "OTHER" NON-STANDARD WORKERS

Most frequently listed "other" non-standard workers are: seasonal workers, on-call workers, homeworkers, self-employed, temporary agency workers.

Practice has shown that these workers:

- lack legal protection,
- lack social protection,
- have weak regulation of hours of work (practice has shown that workers in informal sector work more in order to enter into a contract of indefinite duration)
- have weak protection against dismissal
- work for a minimal wage
- are discriminated compared to standard workers
- employers use their sick leaves as a reason for dismissal
- are frequently unable to use annual or paid leaves
- do not enter any legal procedure for the fear of dismissal
- are unable to advance their career
- have no unions
- have limited options for professional development
- are more poorly integrated into working environment
- face difficulties in application of imperative tenets on limited hours of work, vacations, night and overtime work
- are exposed to safety and health risks.

Due to the above mentioned it seems that non-standard workers experience stress a lot more

¹³ J.Pélissier.Travail à durée limitée et droits des salariés,Droit social 1/1983, 19

that standard workers¹⁴.

Regardless of the fact that Directives¹⁵ and laws prohibit discrimination against any employees, those rights are violated. The solution to this problem some countries found in collective agreements¹⁶:

example 1 - equal wage for equal work

In September 2010 the social partners in the North West German steel industry concluded a new agreement which ensures that temporary agency workers in the industry are paid the same as workers on standard contracts. The agreement covers around 3,000 temporary agency workers. They used to be paid according to separate collective agreements that are often below those of the core workforce. Here, the IG Metall trade union insisted that they should be included in the core agreement in the main national wage round. The agreement states that where temporary agency workers are paid less, the companies liable to pay compensation.

example 2 - regulations of temporary part-time employment positions, implementation of "discontinuous fixed-term contract feature"

In Spain, the federation of commerce, hotels and restaurants and tourism of CCOO (FECOHT) has promoted a number of collective agreements that reduce the share of temporary posts and better regulates part – time jobs. In this way, minimum labour conditions have been improved. Collective agreements have promoted the implementation of the "discontinuous fixed-term contract feature", which makes provision for seasonal workers to continue in the same employment relationship at the start of the next season. Workers also have guarantees as to the minimum working hours they will be offered and are paid at an agreed rate of pay.

example 3- prescribing annual minimum period of employment and establishing percentage of employees that have contract of indefinite duration

The Hospitality agreement of the Balearic Islands is an example of a "discontinuous fixed contract" agreement and guarantees an annual minimum period of employment based on an employment average of the three previous years. Every season people are recruited and dismissed on the basis of seniority. The agreement contains a stable employment commitment which states that where companies have a workforce of between 11 and 25 workers, at least 65 per cent of them have to have an indefinite contract. In companies with more than 25 workers at least 75 per cent have to have an indefinite contract.

example 4 - regulations of the relation between Employment Agencies and agency workers

An agreement signed by social partners in Italy covers labour relationships which exist between "Employment leasing Agencies" and "leased workers" who are taken on either on fixed – term or permanent basis. It is the first collective agreement which has been stipulated in order to legitimise protection profiles for atypical workers; it deals with remuneration and also with

¹⁴ De Cuyper, N. & De Witte, H. (2006) The impact of job insecurity and contract type on attitudes, well – being and behavioural reports: A psychological contract perspective. *Journal of Occupational and Organizational Psychology*, 79, 395- 409

¹⁵ Particularly successful were Directive 1997/81/EC that refers to part-time work and the Directive 1999/70/EC that refers to fixed-term employment, which grant the principle of equal treatment of workers regardless of their employment form

¹⁶ All the examples have been taken from Study on precarious work and social rights, S. McKay, S. Jefferys, A. Paraksevpoulou, J. Keles, Working Lives Research Institute, Faculty of Social Sciences and Humanities, London metropolitan university, Final report, April 2012, available on ec.europa.eu/social

legislative and social security protection and it achieves the European principles of flexicurity. Finally, it concerns an exemplary collective contract for the model of representation of atypical workers which the unions have set up totally separately and autonomously.

5. CONCLUSION

Atypical, non-standard, flexible employment forms enable employers to adapt better to the changes in the market, as well as to save in respect of labor expenses. During its regulation, the legislator faces the problem of meeting the demand for (work organization) flexibility, demand for (wages and employment) security and the demand for granting of basic rights. At the Council of Europe¹⁷ and European Union¹⁸ level, the right to dignity at work has been confirmed as one of the basic workers' rights, whilst the respect of dignity at work represents integral element and fundamental principle of conception of decent work that International Labor Organization confirmed as one of its goals¹⁹.

The respect of dignity must be understood as fundamental value, foundation, starting point and aim of all labor law institutions and rules, which was confirmed by the Declaration of Philadelphia²⁰ as the principle that "all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity". This principle brings about a series of other demands that refer to holding respect of personality and employee's integrity, from the demand for respect of their physical and psychological integrity, to the prohibition of harassment at work, demand for respect for employee's personal life and the demand for application of the equality principle.

Equality principle prohibits unfavorable treatment of employees with atypical employment. However, the prohibition is not absolute, but a different treatment of employees with standard and atypical employment may be allowed if there are objective reasons for it. Equality principle does not exclude different treatment of workers with atypical employment, if the appropriate differences are caused by their work experience, skills, ability to work or different (specific) working conditions, rather than the fact that an employee entered into atypical employment contract²¹. It appears that fixed-term workers enjoy the best position among non-standard workers, while the least favorable position is that of homeworkers. Homeworkers are certain to receive solely their "bare" wage, without insurance. Furthermore, there are no data about the health and safety conditions in which they work, the regulations of their hours of work, vacations, leaves, overtime work, etc.

It seems that in order to improve life and working conditions of non-standard workers it is necessary to:

- raise awareness of non-standard workers about the necessity to be active in respect of their status resolution. They can achieve that by filing a demand to their employer (internal protection), and in case of rejection- to courts; reporting irregularities and unlawful behavior of the employer to the Labor Inspector, unions, the media; joining existing unions or establishing a special union that will deal with the protection of solely non-standard workers; entering into collective agreements that will regulate the rights, obligations and responsibilities

¹⁷ The European Social Charter (revised), art. 26

¹⁸ Charter of Fundamental Rights of the European Union, art. 31, para. 1

¹⁹ The primary goal of the ILO is to promote opportunities for women and man to obtain decent and productive work, in conditions of freedom, equity, security and human dignity, ILO, Decent work, Report of the Director- General, International Labor Conference, 87th Session, Geneva, 1999, www.ilo.org/public/libdoc

²⁰ Declaration concerning the aims and purposes of the International Labour Organisation, part II, clause a)

²¹ G. Halbach, N. Paland, R. Schwedes, O. Wlotzke, Labour law in Germany: an overview, 5th revised and extended edition, Federal Ministry of Labour and Social Affairs, Bonn, 1994, 204

of non-standard workers in detail.

- enhance social dialogue among work, capital and the state
- make the data on employees on various basis public in order to follow movements in the labor market and changes happening in it.

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SOCIAL ENTREPRENEURSHIP IN SERBIA - THE ENTREPRENEURIAL SPIRIT LEADING TO SOCIAL CHANGES

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ABSTRACT

This paper highlights the importance of social entrepreneurship (often called the "third economy"), which has been rapidly developing worldwide in the past 10 years. The social entrepreneurship in the EU is in great expansion and it generates a large number of jobs and opens up new opportunities for economic development. Nearly 1/10 of all jobs in Europe are being opened in the sphere of social economy, and today this sector employs more than 9 million people (permanently employed). The paper also points to the differences between social entrepreneurship and the traditional approach to entrepreneurship, as well as the importance of the adoption of the new legislation in the Republic of Serbia, which would regulate this area (through the analysis of key issues and dilemmas in that process), for the purpose of facilitating its full contribution to the development of the entrepreneurial spirit and social changes.

Keywords: *changes, social economy, social entrepreneurship, social enterprises, the law on social entrepreneurship*

1. INTRODUCTION

"A little bit of good can turn into a whole lot of good when fuelled by the commitment of a social entrepreneur."

Jeffrey Skoll

In economic theory, entrepreneurship is usually defined as the entirety of innovational, organisational, directional, managing and monitoring skills. It includes all activities aimed at investing and a combination of the necessary inputs, as well as expanding into new markets, creation of new products, new customers and new technologies, and it is especially related to crucial times of uncertainty, crisis and changes in the environment. Entrepreneurship actually always represents an ability to perceive and accept an opportunity for possible business success, as well as entrepreneurial determination to take action when the risk is high. Social entrepreneurship represents the application of entrepreneurial principles, such as: innovativeness, reasonable risk-taking, self-confidence, hard work, clear goal setting and accountability in the public sector with the aim of improving the quality of life. It simultaneously strives to achieve both financial and social value and as such represents the art of simultaneous realisation of financial and social return on investment. Social entrepreneurship can be seen as a process in which citizens, by means of entrepreneurial methods and resources, build or transform existing structures in order to find solutions to social problems such as poverty, exclusion, illiteracy, human rights violations, destruction of the environment and corruption, all in order to improve the quality of life of all population strata.

The literature often highlights that social enterprises are characterised by great innovativeness and the ability to combine the necessary resources in order to successfully carry out their activities and fulfil the social mission. On the other hand, it is expected that other actors in the economic system, especially decision makers and public institutions, but also private companies focused on making profit, recognise the specific role of social enterprises and help their survival and functioning. A favourable legal framework, priority in public procurement, corporate social responsibility and the availability of micro-financing are just some of the options that open up more space for social entrepreneurship. Social entrepreneurs are to social changes what business entrepreneurs are to the economy. They are the initiators, creative individuals who question the status quo, exploit new opportunities, never give up and remake the world for the better. (David Bornstein) (Retrieved from: Raičević V., Glomazić R., 2012, p. 55).

2. TRADITIONAL AND SOCIAL ENTREPRENEURSHIP

Social entrepreneurs, according to G. Dees, one of the most important authors in the field, are those who create public good and value and create new opportunities, innovate and adapt them and have a strong sense of social responsibility. The main difference between a social entrepreneur and a traditional business man is the very purpose of action. For social entrepreneurs, the motive and purpose of work is to maximise social benefits, usually through direct guidance to the most urgent needs, which for some reason have been neglected or ignored by the institutions. Social entrepreneurs are entrepreneurs with such a mission, which represents the key motive for their actions and determines their behaviour in the market. It is the effect that entrepreneurial operations have on the mission that is the most important criterion for success; it is not making profit. Profit is only a means to an end, that is, the accomplishment of the entrepreneurial mission, and that is always a social change, a benefit for the local community or a specific social group being threatened or being in a spiral of social exclusion. A traditional entrepreneur sees profit or benefit of shareholders, or creating of permanent benefits for the clients/customers and employees of the organisation they are trying to build, as the purpose of their activities. Both types of entrepreneurs and the purpose of their actions are legitimate and indispensable to society, even the competencies that they need to have must be equal; vision, initiative, organisational development, marketing skills, innovation, and perhaps the most important, the creation of new value. For the traditional entrepreneur, the new value means the realisation of gain or benefit for herself or himself or their company, while in the case of social entrepreneurs, new value can be reflected in multiple positive effects on the society, the local community and improvement of the situation for a specific target group. Defining a social enterprise and placing it into terminology frameworks, represents a major challenge for most authors who study this matter. Social enterprises can be classified according to the type of organisation, legal form and characteristics of their underlying values; we will present here some of the most commonly used definitions, in order to locate social enterprises somewhere on the map of the entire entrepreneurial sector and define their basic characteristics. One of the most commonly used definitions of social enterprises is the one that was created under the auspices of the EMES - European Research Network Social Economy, which, because of its importance, we quote as follows: "Social enterprises are not-for-profit private organisations providing goods or services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks linked to their activity". (Defourny J., Nyssens M., 2008, p. 5). The key phrase in this definition is "not-for-profit", which, however, is not the same as the "non-profit" organisation. Social

enterprises aim to make profit - thus ensuring their financial viability – yet they do not exist primarily for financial gain, but for their social mission.

In addition, one of the commonly used definitions is the one which defines a social enterprise as a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners.¹ Some other definitions observe social enterprises as organisations of different legal forms in different countries that are organised in entrepreneurial spirit whose main purpose is the attainment of certain economic and social goals. Social goals prioritise solutions to unemployment, social cohesion and social exclusion, and these organisations can operate both in urban and in rural areas.² The emphasis is on social goals and investing of profit in further business development or local community development. This definition provides for investing of at least 50% of the profit for socially useful objectives which realise the basic purpose of each social enterprise. This includes investing in the sustainability of the social enterprise, which is in line with the tendency to reduce the use of grants and increased reliance on self-financing. A social enterprise is defined as an organisation that achieves its social mission through entrepreneurial strategies/methods of generating income. The USA approach sees a social enterprise and social entrepreneurship, as a way of achieving social objectives through the realisation of the higher revenues. A social enterprise is always market-oriented, engaged in the production of goods or provision of services.³

The social economy is somewhat broader concept than social entrepreneurship and includes all those organisations that are engaged in social change or improvement of the status of some of the target groups. It is often called the "third sector". Those are non-profit organisations, non-governmental organisations, charitable organisations, various foundations, cooperatives and other organised forms of civil action. This includes organisations that not only have an economic role, but also those, for example, engaged in human rights or advocacy. Although there are significant differences in the concepts, what is characteristic for them and what they have in common is the fact that they are guided by general social values and goals that are social, environmental, cultural, etc. (according to: M. Shrestha 2013). Social enterprises differ from traditional organisations of the "third" sector by accentuated economic activities, with a willingness to engage in risky economic venture. At the same time, they differ from traditional for-profit companies and cooperatives by a stronger orientation towards broader social goals and interests of the community. Social enterprises are either legally forbidden to distribute profits or are structured and designed to exclude profit as the main goal.

3. THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP

Social entrepreneurship and social economy have been developing rapidly in the last 10 years around the world, mostly in the USA and Europe, but also in developing countries. Social enterprises operate in many sectors such as health care and social services, child care, transportation, manufacturing and sales of food, services related to leisure time, products and services related to the environment and environmental protection etc. The power and importance of the social economy, as well as the contribution to the overall economy, varies from country to country. The share of the working population employed in the social economy is significantly higher in developed countries than in transition and developing countries. In the so-called Anglo-Saxon countries (North America, Australia, the United Kingdom) the share of persons employed in the "third sector" amounts to about 8.2% of the total number of employees, while in the Nordic countries, this proportion is less (2.5%), where due to the strong social

¹The definition of a social enterprise of the UK Government: the Department of Trade and Industry (2002).

²The definition of the Organization for Economic Co-operation and Development (OECD).

³The definition of the American Social Enterprise Alliance.

policy that is being implemented by the state, this sector is not as strongly developed as in Anglo-Saxon countries. In continental Europe (Austria, Belgium, France, Germany), social entrepreneurship is mostly based on the provision of social services (which means that the basis of funding comes from the state budget) in a strong civil society sector. Since the provision of social services in Central and Eastern Europe was under the jurisdiction of the state apparatus during socialism, the "third sector" was not as developed in the early years of transition, but interest is growing thanks to the ubiquitous policies of the European Union and the constant promotion of social entrepreneurship. According to research, in the sector of social entrepreneurship, there are about 40 million employees in the world today and over 200 million volunteers. In Europe, the social economy is greatly expanding, generates a large number of jobs and opens up countless opportunities for economic development. Nearly 1/10 of all jobs in Europe are being opened in the sphere of social economy, and today this sector employs more than 9 million people (permanently employed), half of which are in one of the 300,000 cooperatives. In Spain, the social economy contributes to the national GDP with 7%, while in Italy this figure rises to 12% (Monzón J. L., R. Chaves 2012, p. 46). Social entrepreneurship and social economy are also increasingly growing in developing countries, primarily because of advances in communication technology and numerous initiatives to reduce poverty. One of these initiatives is a growing number of organisations involved in ethical or fair trade, representing small producers united in order to achieve greater economic and social benefits, as well as better working conditions and sustainability of operation. This initiative now includes over 7 million of mainly food producers and their families, and it advocates a higher purchase price and direct export from developing countries to developed countries. Generally speaking, the "third sector" in developing countries is funded almost exclusively by donations from foreign organisations and countries, while the contribution of the state and self-financing is still poorly represented (an example is Kenya, where only 5% of total revenues for the "third sector" represent contributions from the national budget).

4. THE IMPACT OF THE DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP ON POVERTY REDUCTION

Social entrepreneurship involves a different way of thinking, a different way of doing business and different way of behaviour of individuals and institutions. It destroys the basic assumptions of market-oriented economy and economic principles, according to which the individual and the business that he or she runs, is based solely on the motive of making profit. However, current trends show that the number of individuals and groups, who are not motivated only by making profit, is growing, and the focus of their interest is in the welfare of society and altruism. This is exactly what the basic function of social entrepreneurship is - using business to solve certain social problems such as unemployment, social exclusion and environmental problems. Profit distribution is limited, which means that profit is not reaching the owners of capital, but it is being reinvested in the company and directed to solving social problems; in such a way, joint action of citizens, businesses and the state is being encouraged. Social enterprises with their activities, aimed at solving the problems of vulnerable categories of citizens, contribute to strengthening of the inclusiveness of society, enhance citizens' initiative, but are also a successful tool for economic development. The importance of social enterprises lies in their capacity to address economic and social problems, which public services, burdened by serious budget constraints, or traditional for-profit companies, cannot effectively solve. Their economic value is in the fact that they provide basic public goods, such as social, educational, health care services and services of general economic interest to local communities, while also including the people who cannot afford to pay for them. They also contribute to the economic development of backward areas; they create new employment opportunities as a result of the

provision of new services; and encourage the integration of vulnerable groups, including the members of ethnic minorities, single mothers and people with disabilities. In addition, they contribute to the enhancement of social cohesion, the accumulation of social capital and more balanced economic development at the local and national level.⁴ Poverty extends well beyond a mere lack of material consumption; it also includes the psychological pain of the poor, poor achievement in education and health, a sense of vulnerability in relation to external events, as well as the feeling of helplessness before the institutions of the state and society. Social inclusion of vulnerable groups, through participation in the work of social enterprises, ensures that those at risk of poverty and social exclusion gain the opportunities and resources they need to fully participate in economic, social and cultural life and enjoy the standard of living and well-being that is considered normal in a society in which they live. European countries see the development of social entrepreneurship as a part of the business contribution to sustainable development and contribution to the European strategy for growth and employment, as it has the potential to contribute to various common goals, such as social cohesion, economic competitiveness and a more rational use of available resources. In these countries, social entrepreneurship is integrated into employment policy and social policy, as well as the enterprise policies, environmental policy, consumer policy, public procurement policy and foreign relations policy. Thus, for example, in the UK, social entrepreneurship is more present in rural areas than in urban areas; women are far more prevalent in the activities of social entrepreneurship than traditional entrepreneurial activities, and among the most engaged in this area are the youngest age groups (18 to 24 years of age - 3.9% of the population) (report of the London Business School. Retrieved from: T. Edmonds 2014, p. 3).

5. THE POSSIBILITIES OF DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN THE REPUBLIC OF SERBIA

Social entrepreneurship in Serbia currently exists in the form of individual initiatives, in which the problems of unemployment and social exclusion are addressed in individual cases. The labour market is still not developed enough to take on the role of the key factor of social integration. Social entrepreneurship is not adequately recognised in the legal system in Serbia, although it seems that the importance of the concept and its benefits are recognised in the civil sector and among professionals. No legal regulation in Serbia regulates this matter in a comprehensive manner. However, several laws contain provisions that may be the basis for and support to the development of social entrepreneurship (they govern a possible field of action of social enterprises, the way of constitution and operation, as well as the method of taxation).⁵ The sources of funding of social enterprises in Serbia can be classified into three groups: the first group includes the funds that support social entrepreneurship which can be directly used to finance the establishment and operation of social enterprises, because they recognise the need for alternative activities in the field of social protection, what they also emphasise in the description of their activities. The second group are the funds intended for financing of various needs of vulnerable groups, (sources from which the projects dealing with marginalised groups are being financed). A large portion of these funds is still not development-oriented. Instead, solving of problems of vulnerable groups is often treated as a form of social assistance, without

⁴*Introduction to social entrepreneurship, Briefing for civil society in Serbia*, the Project „Strengthening of Serbia-EU Civil Society Dialogue“, Euclid Network, Centre for Development of Non-Profit Sector (Serb. CRNPS - Centar za razvoj neprofitnog sektora), Roma Education Center and Urban-In (pg. 10).

⁵These are: the Law on Social Protection, the Law on Vocational Rehabilitation and Employment of Persons with Disability, the Law on Associations, the Law on Foundations, the Law on Enterprises, the Law on Cooperatives, the Law on Volunteering, the Law on Corporate Income Tax and the Law on Value Added Tax.

making efforts to actively involve those persons in satisfying their own needs. These are the sources of funding which should be worked on to the greatest extent, in terms of adapting to the terms of social entrepreneurship development. The third group are potential sources of financing of social entrepreneurship development. These funds generally do not target the marginalised groups, but they represent sources of funding which are more favourable than those that exist in the financial market in Serbia, which are therefore suitable for financing of the establishment and operation of social enterprises. It is certain that social enterprises should operate according to the basic logic of the market, i.e. at least to achieve that the income is the same as the expenses, and if they are not able to successfully do business, they should be shut down. However, social enterprises can be provided with additional support by directing them to the sources of project funding, a more open access to financing from the local budget (financing of operational costs), future development of opportunities for micro-crediting, and the establishment of the Fund for social inclusion which would support programmes of social inclusion and lead to a more efficient use of the available funds. The SWOT analysis that follows, presents the strengths, weaknesses, opportunities and threats to the development of social entrepreneurship in Serbia (in the opinion of the author, groups of five of the most important ones have been singled out):

<p>Strengths:</p> <p>The existence of support based on the initiative of the civil society</p> <p>The existence of different initiatives in the local community</p> <p>Long tradition of cooperatives</p> <p>The development of an enabling environment for the development of small and medium enterprises</p> <p>The existence of interest for the development of socially responsible business and investment in community and social entrepreneurship in a part of the business sector, with established collaborative mechanisms and programmes</p>	<p>Weaknesses:</p> <p>The lack of analysis, poor, though growing, recognising of the potential benefits of social entrepreneurship for social-economic development</p> <p>Lack of a legislative framework which is clear and of good quality</p> <p>Lack of visibility of socially and environmentally responsible products and services on the market</p> <p>Lack of business skills of existing and potential social entrepreneurs</p> <p>Low participation in international business and collaborative networks of social entrepreneurs (clusters, knowledge exchange)</p>
<p>Options:</p> <p>High recognisability, a huge range of innovations and financial support in the field of social entrepreneurship across the EU and the world</p> <p>Increased awareness of the need to find alternative economic models</p> <p>Accessible and swift international cooperation and knowledge exchange, networking and cross-sector partnerships at the regional, national and international level</p> <p>Prospects of the reform of the social protection system, in the direction of decentralisation and localisation of social services provision</p>	<p>Threats:</p> <p>The abuse of the concept of social entrepreneurship for activities that are not in accordance with its principles and values</p> <p>Equating social entrepreneurship with the non-profit sector</p> <p>Possible administrative obstacles due to failure to recognize the full potential of social entrepreneurship by the state/public institutions and regional/local communities</p> <p>Lack of legal framework for the creation of an enabling environment for social entrepreneurship</p>

The growing awareness of the state institutions regarding the importance of social entrepreneurship sector

Equating the concept of social entrepreneurship with the failed concept of socialist economy

5.1. Possible Courses of Action

The support to the development of social entrepreneurship could most effectively influence social changes and the development of entrepreneurial spirit if directed towards the following areas: prerequisites, infrastructure, public policy management, finance, skills and access to markets.⁶

5.1.1. Prerequisites

When it comes to cultural barriers, one part of the legacy is the distrust of the public in the forms of social ownership, and the situation is being deteriorated by the public attitude that reflects the high dependency of the state, along with the great distrust in it. Social entrepreneurship has great potential for solving social problems in permanent conditions of strict budget constraints, while at the same time strengthening confidence in civil society, which would lead to overcoming this legacy of distrust and dependency of the state. There is room for greater vertical and horizontal integration of the policy of the state administration, to ensure that public services (including business support) and procurement procedures are fair to social enterprises and that they are equally treated. There are also issues related to the development of the culture of entrepreneurship and self-help. In addition, the informal economy is extensive, especially in certain sectors, and this reduces the prospects for the development of social entrepreneurship. It is important to devise measures to settle the issue, which would include a more effective system of regulation and monitoring.

5.1.2. Infrastructure

The only legally recognised social enterprise form is, currently, an enterprise for employment of persons with disabilities. Significant potential for social cooperatives that was seen in many other European countries does not have institutional support in Serbia and relies on *ad hoc* adjustment of existing regulations on cooperatives. Non-governmental organisations/associations are the second of the most common forms of organisation of social entrepreneurship in Europe, but in Serbia their potential is limited because of the need to more closely regulate the condition that the scope of activity must be "related to" (the objectives of the association) and to abolish restrictive conditions for the permitted economic activity, according to which it should be of a "smaller scale". Therefore, it is certain that there is room for improvement in almost all structures so that they would strengthen the sector of new social enterprises and that they would link themselves with the established social economy, while building its capacities.

5.1.3. Public Policy Management

For the policy of social entrepreneurship to be effective, there needs to be a good system of coordination and joint development of public policy, which is a system of joint public policy management. The prerequisites for this are vertically and horizontally integrated systems of public policy that are transparent and which are being effectively managed.

⁶Adapted from: *Encouraging of Social Entrepreneurship and the Establishment of Social Enterprises in the Republic of Serbia*, (2012). The Report on the Republic of Serbia, OECD's Local Economic and Employment Development Programme (LEED) and Team for Social Inclusion and Poverty Reduction (SIPRU) of the Government of the Republic of Serbia, Belgrade.

5.1.4. Finances

Social entrepreneurship is trying to build a spirit of self-help among disadvantaged individuals and communities. These communities do not have many resources, so it is necessary to develop a portfolio of appropriate resources. The banking system is conservative and risk averse when it comes to small and medium-sized enterprises (including social enterprises). Therefore, in addition to banks, the Budget fund, public works and revenues from games of chance are important for securing additional sources of financing, and there is most certainly room to improve the availability, orientation and the volume of these funds.

5.1.5. Skills

The following range of skills is needed for the development of social entrepreneurship: the skills of social inclusion (and other skills related to the sector, for example, skills related to community development and social services); entrepreneurship and management skills (marketing and finance, business planning and development, as well as skills related to the growth and expansion of business scope); skills related to meeting the regulatory requirements and obligations of reporting and negotiations with the administration bodies; skills of social enterprise development.

5.1.6. Market Access

Public procurement markets are potentially among the most important ones when it comes to the support of social enterprise development. However, it is unlikely that this will happen until a special contribution that social enterprises provide becomes fully recognised and until the social enterprises achieve better positioning and become sustainable. At the municipal and other levels, it is necessary to develop certain prerequisites for the establishment of a more simulative framework for the procurement from social enterprises.

6. CONCLUDING REMARKS

The low level of social security requires a stronger role of the state and other institutions in the provision of social welfare services and in addressing high unemployment, which can only be done through economic growth and creating new jobs. Therefore, social enterprises can provide vital support to the political, social and economic development of Serbia. They can provide a strong contribution to the increase of social cohesion and social capital and can support a more balanced economic development. They often operate in the neglected areas, providing services and fostering social inclusion, and are able to achieve that because they address issues that the government institutions and traditional commercial enterprises cannot solve efficiently, by using resources that otherwise would not have been directed at satisfying the development needs and the needs of social welfare.

Serbia will have to accept the standards and practices of the European Union in the further process of EU accession, which includes the recognition and promotion of social entrepreneurship and its contribution to social cohesion and sustainable competitiveness and development. This inevitably requires the adoption of a law to clearly regulate this area, a review of government policies in the areas affected by the concept of social entrepreneurship, development of a comprehensive action plan and implementation of actions that will support the development of social entrepreneurship, as well as the progress of monitoring for achieving set goals of development of social enterprises and social economy.

Lack of public awareness about social entrepreneurship creates the necessity of engaging the media to disseminate information about its importance and benefits, as well as about the real-life examples of good practices from Serbia and other countries. Lessons from other countries and from the present EU Member States, show that in an environment where market initiatives

for social entrepreneurship remain weak, the government must play an important role in encouraging and facilitating its promotion. Due to the initiated process of institutionalisation of social entrepreneurship through the preparation of the law to regulate this area, it is essential to clearly define the objectives and priorities, which will enable Serbia to achieve better results with the existing resources that can be used to encourage those who are considering this kind of entrepreneurship. Since the concept of social entrepreneurship encompasses various policies that are within the competence of different agencies and organisations, coordination between different actors prevents the diffusion of responsibility for measures within specific areas, as well as duplication of efforts and resources, but also contributes to setting priorities for actions and support activities.

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EXTENSIVE KNOWLEDGE IN MARKETING MANAGEMENT

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ABSTRACT

Marketing management is the practical application of marketing techniques. This is the analysis, planning, implementation and control of the program prepared to design, build and maintain mutually beneficial exchanges with target markets. The work of the company in most cases occurs in the middle of changing and uncertain conditions. In other words, there is a vague state of so much uncertainty leads to increased danger. Therefore, the obligation of the company is to investigate the information in different ways. Undertake such must receive sufficient information to help make positive decisions for the purpose of its existence and generating profit. One of the ways of getting information is a system for collecting marketing data and information; we will try to define object types, activities and ways of functioning of the system for collecting marketing data and information. The system for collecting marketing data and information is part of company marketing information system. To enable it to cope with the activities of the competition must rule extensive knowledge related to the environment, and that a lot of knowledge includes information obtained through the system to collect marketing data and information whose responsibility is to create special conditions for the company.

Keywords: *informations, information system, knowledge, marketing*

1. INTRODUCTION

It is becoming increasingly important for marketing management to have up-to-date information to carry out its tasks. Marketing is becoming increasingly proactive, and must seek to identify changes and trends in the macro-environment and then translate these into action plans. In order to carry out this task, the concept of the marketing information system (MkIS) has been developed and this forms an integral part of the corporate management information system (MIS). Marketing research collects information and a marketing information system (MkIS) analyses and acts on such information. MkIS is a computerized system that is designed to provide an organized flow of information to enable and support the marketing activities of an organization. The MkIS serves collaborative, analytical and operational needs. In the collaborative mode, the MkIS enables managers to share information and work together virtually. In addition, the MkIS can enable marketers to collaborate with customers on product designs and customer requirements. The analytical function is addressed by decision support applications that enable marketers to analyze market data on customers, competitors, technology and general market conditions. These insights are becoming the foundation for the development of marketing strategies and plans. The MkIS addresses operational needs through customer management systems that focus on the day-to-day processing of customer transactions from the initial sale through customer service.

2. MARKETING DECISION MAKING AND SUPPORT SYSTEMS

Decision theory in economics, psychology, philosophy, mathematics, and statistics is concerned with identifying the values, uncertainties and other issues relevant in a given decision, its rationality, and the resulting optimal decision. Most of decision theory is normative or prescriptive. It is concerned with identifying the best decision to take (in practice, there are situations in which "best" is not necessarily the optimum, but within a specific or approximate

range, assuming an ideal decision maker who is fully informed, able to compute with perfect accuracy. The practical application of this prescriptive approach is called decision analysis, and aimed at finding tools, methodologies and software to help people make better decisions. The most systematic and comprehensive software tools developed in this way are called decision support systems. Since people usually do not behave in ways consistent with axiomatic rules, often their own, leading to violations of optimality, there is a related area of study, called a positive or descriptive discipline, attempting to describe what people will actually do. Optimal decision often creates hypotheses for testing against actual behavior. Last years there has been increasing interest in “behavioral decision theory” and this has contributed to a re-evaluation of what rational decision-making requires. Marketing decision support systems (MDSS) constitute a set of core applications of the MkIS. The MDSS provides computer-based tools, models, and techniques to support the marketing manager’s decision process. In the general case, MDSS is optimized for queries of historical data. MDSS data typically are derived from both internal and external market sources. The MDSS features inquiry and report generation functions where the manager can access marketing data, analyze it statistically, and use the results to determine an optimal course of action.

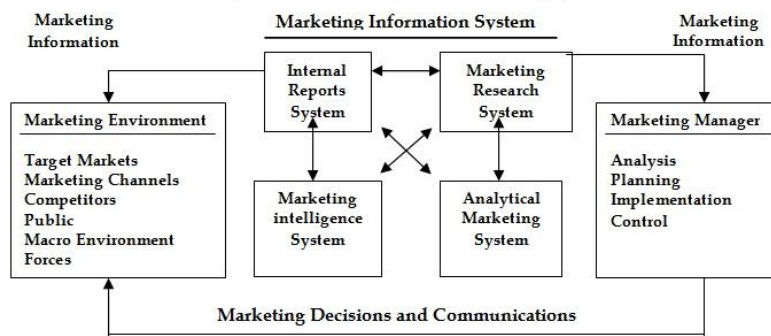


Figure 1: The marketing information systems and its subsystems
(<http://www.fao.org/docrep/W3241E/w3241e0a.htm>)

3. MDSS ANALYSES

Marketers typically use MDSS models and tools to analyze markets, customers, competitors, and internal operations. The following list presents some of the most common types of issues targeted by MDSS analyses.

1. *Market segment analysis.* Use of modeling techniques to identify segments and analyze economic trends, demographics and behavior.
2. *Market share analysis.* Analyze trends and determinants of market share.
3. *Competitor analysis.* Analysis of competitors’ market positions, economics customer base, and marketing strategies.
4. *Pricing analysis.* Identifies and analyzes the factors that influence a firm’s ability to set prices including price elasticity and demand analysis. Includes internal economics and market related factors.
5. *Cost analysis.* Studies a firm’s overall cost structure and its impact on product cost. Margin analysis combines cost analysis with pricing analysis. Variance analysis looks for explanations of costs overages and underages.
6. *Sales analysis.* Studies the distribution of a firm’s sales by region, product, brand, sales territory, etc.
7. *Sales forecasting.* Develops estimates of sales potential by product, region, sales territory, brand, etc.

8. *Sales force productivity*. Studies sales force effectiveness and efficiency and contributing factors.
9. *Advertising analysis*. Analyzes advertising effectiveness, media choices and brand awareness.
10. *Distribution*. Analyzes channel decisions from economic and strategic perspectives.
11. *Simulation*. Simulates decision making under various strategic scenarios.
12. *Customer satisfaction*. Analyzes issues concerning the customer's expectations and outcomes with the product.

3. DATABASES FOR MARKETING INFORMATION SYSTEMS TECHNOLOGY

Technological developments have had a major impact on marketing information systems. These developments are underpinned by relatively cheap yet sophisticated computing power which is facilitating improvements in data collection storage, manipulation and retrieval. A technology that speeds up results from a market research survey uses computer assisted telephone interviewing that provides instant data feedback to the control centre as interviews are conducted and questionnaires completed through a hand-held computer in a wireless Internet location. Databases Developments in information collection, storage and analysis are making information an important competitive asset. The key to this information revolution is the use of databases in marketing. Essentially, a database represents a pool of information on markets and customers which can be interrogated and analysed to facilitate improved marketing decision making. Databases are not new, as even a system of manual sales records kept on customers in a filing cabinet is a database. A database can be built from a variety of sources. Examples include customer orders, loyalty cards, customer enquiries, subscription lists and ad hoc market research studies. There is a wealth of information available to the point of it being overwhelming. Not only do modern database techniques and technologies help to overcome this problem, but we now know much more about the key factors in developing and using successful databases.

Data Warehouse (DW) is a database used for reporting and analysis. Data warehousing is a term used to describe collecting data on customers and markets from several possible sources in a company and storing it in one central database. This has developed because companies have different departments in the organization, each of which has a unique database that is not always made available to the rest of the organization. The data stored in the warehouse is uploaded from the operational systems. The data may pass through an operational data store for additional operations before it is used in the DW for reporting. A data warehouse maintains its functions in 3 layers: staging, integration, and access. Staging is used to store raw data for use by developers. The integration layer is used to integrate data and to have a level of abstraction from users. The access layer is for getting data out for users.

Data warehouses are an integral part of the MDSS. They provide the ability to access data for creating marketing operations reports, analyze sales results over time, identifying and mapping patterns, trends, that may be emerging in the market, and enabling the development of new products, pricing, market segmentation strategies, marketing communications campaigns, and distribution channels. IBM defines a data warehouse as a place that stores enterprise data designed to facilitate management decisions. In essence, a data warehouse provides the basis for an analytical system where periodic data points are collected and stored at specified times for future analysis. Data warehousing enables marketers to capture, organize, and store potentially useful data about customers and markets for decision-making purposes.

Data mining is the computer-based exploration and analysis of large quantities of data in order to discover meaningful patterns and rules for the purpose of improving marketing, sales, and customer support operations. The combination of data mining procedures with data warehousing enables the MDSS to move beyond just support for the operational processes in

the marketing organization and to focus on actual customer behavior. Data mining and data warehousing provide the means and the infrastructure for extracting strategic opportunity from knowledge of the customer.

Companies need a method for viewing all customer and marketing-related information in an integrated way. Often marketing organizations maintain multiple databases for each business and marketing activity with data that is not easily integrated for strategic or operational purposes. A new generation of software that is Internet based gathers information from customer service, Web sites, direct mail operations, telemarketing, field sales, customer service, distributors, retailers and suppliers for the purpose of managing marketing, sales and customer service activities. The major applications families are commonly referred to as sales force automation (SFA) and customer relationship management (CRM) systems. Some CRM systems are fully integrated with SFA applications and some are standalone. Customer relationship management (CRM) are software applications that managed the interaction of customers with an organization. They are used to increase the return on marketing efforts by enabling the understanding of the complete history of a firm's interactions with its customers. CRM systems are able to target promotions to likely buyers, facilitate sales efforts, and deliver customer service.

4. MARKETING INTELLIGENCE SYSTEM

The market intelligence system is concerned with collection and analysis of ongoing developments in the marketing environment. This is normally regarded as a sub-set under marketing research where it is referred to as 'desk research'. However, we are considering this as a component part of the MkIS, so it is logical that it is included here, and marketing research follows later. The main sources are secondary data sources, the principal ones of which are now summarized. The marketing information system process consist of collecting, analyzing, and disseminating marketing information relies on a the few steps in the process.

STEP 1. Determine what metrics to include in your marketing information system..

This is a very serious step in creating an effective marketing information system. All data has a cost, both real and opportunity costs, so including the RIGHT metrics is critical. Measure the wrong things and you'll make bad decisions and waste money. An example is measuring fans to your Facebook page. Sure, there's a slight advantage to having more fans, but their contribution to ROI is relatively small. Making decisions that focus on increasing the number of fans likely wastes more money than warranted by the ROI you'll see. Measure too many metrics and analysis becomes difficult. It's like trying to find a needle in a haystack. The vast amount of hay (useless data) hides the useful data — the needle. Just because you CAN measure something, doesn't mean you SHOULD. Accumulating metrics costs money. Data is only worth its cost when the value it contributes to improved decision-making outweighs the cost of collecting the data — and be sure to include the human cost of gathering and analyzing this data to other costs in acquiring the data.

STEP 2. Gather relevant data.

Some data comes from internal sources, such as sales records, accounting figures, website analytics, and reports from your sales force. Other data comes from external sources, including competitor results, economic metrics, listening post metrics, and Facebook Insights. Your marketing research data can also form part of your marketing information system, such as recurring surveys of customer satisfaction.

STEP 3. Plot data.

It's very difficult to make decisions based on raw data because the data contains invisible patterns that might otherwise indicate appropriate actions. For instance, it's hard to see a downward trend in customer satisfaction without graphing the data until the decline is

substantial and by then it might be too late to reverse the trend. Plotting data allows managers to quickly detect changes in critical metrics over time. Sure, you can use the graphing function of Excel or other data program, but newer data visualization software makes the job even easier. Examples of software providing superior data visualization are: IBM Cognos Insight, Tableau Software, and SAP Visual Intelligence. Some even create dashboards to bring all your marketing metrics to one place, making decision-making even easier.

STEP 4. Communicate results.

The more people who have the information from your marketing information system, the better. But, not everyone is going to understand tables of raw data or even visualizations like in the dashboard above. That's because your marketing information system requires interpretation through the lens of marketing knowledge.

An example is my hierarchy of effect model of social media marketing. Not only does the model suggest appropriate data to collect, such as sentiment, #likes, # comments, #shares, size of engaged audience, and participation in customer support, the model suggests how these metrics translate into ROI from your social media efforts. Because readers might not know of or understand this model, data interpretation would include references as to WHY metrics are important for reaching firm goals.

STEP 5. Make marketing decisions.

The final step in the process is using metrics from your marketing information system to make decisions that optimize your marketing outcomes.

5. EXAMPLES OF SOURCES FOR MARKETING INVESTIGATIONS

In most developed countries of the world government-supplied information is probably the most valuable of external sources of secondary data. The more potentially useful types of government information include:

Census data: most governments conduct a regular census of their citizens. Census data is necessary for government planning and policy making but it is also a valuable source of information for the marketer. Census information includes information on numbers in the population, household and individual data such as number in household, age, sex, marital status, socioeconomic class, country of birth, education and economic activity.

Economic activity: most governments collect and publish statistics about occupations and the employed population classified into branches of industry. In most developed countries key statistics, covering age, distribution, socio-economic status, housing conditions, housing tenure, car ownership and many others are available. These statistics are used by marketing organizations to evaluate potential markets and often form the basis of segmentation and targeting strategies.

Income and expenditure statistics contain information on national income and expenditure; population statistics; labor; social services; production; agriculture and food; energy; chemicals; textiles; construction; retailing and catering; transport; external trade; wages and prices; entertainment and overseas and home finance.

Social statistics usually contain information on aspects of social conditions and services and education.

Distribution statistics: governments also collect and publish information on distribution such as information on numbers, sizes, type and turnover of different types of retail outlets.

Production statistics provide information on employment; wages and salaries; stocks; capital expenditure; purchases of materials and fuel; sales and work done.

Economic trends usually contain information on aspects such as the value of imports and exports; volume of retail sales; index of production; retail prices; gross domestic product; personal disposal of income; saving and borrowing; consumer expenditure; investment; relationship of stocks and output and changes in stocks.

Household expenditure: these types of government surveys collect information on household expenditure on about 100 grouped items and are analyzed by factors such as household income, household composition, occupation and age of the head of the household.

Overseas trade statistics involve a summary of imports and exports by commodities and countries.

Business monitors: the object of individual business monitors is to bring together the most up-to-date official statistical information covering production, imports and exports relating to a particular industry. Most countries produce such information, and in the UK, such monitors cover:

The Production Series detailing such items as food, drink and tobacco; coal and petroleum products; chemicals and allied industries; metal manufacture; engineering; textiles; clothing and footwear; printing and publishing; timber; furniture; pottery; glass and cement.

The Service and Distribution Series covering food shops; clothing and footwear shops; durable goods shops; catering trades; and finance houses.

The Miscellaneous Series detailing motor vehicle registrations; cinema; insurance companies; overseas travel and tourism; acquisitions and mergers and company finance. Government statistics are collected for the purposes of government, and not specifically for marketing firms. Consequently, such data may not always fit a particular marketing purpose and may have to be extensively modified or re-tabulated to be of use. A further point is that many of these statistics have been collected by government for general macro-economic policy making. For such decision making, broad aggregates of data are usually sufficient, and various government agencies

will often use a number of assumptions and conventions when compiling statistics which can affect their validity, especially when they are used out of context in situations other than those for which they were originally compiled. Government statistics are generally free of charge and are a useful information source which must be used prudently when making marketing plans. Detail of the range and sources of government-published information in different countries is beyond the scope of this

text but can be found in appropriate marketing research texts.

The United Nations: apart from its political role, the UN operates through many agencies. Those which concern the industrial and trade researcher are the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO) both of which are mainly concerned with helping the progress of developing countries. Each has an international staff and is engaged in a wide variety of international operations. To support these operations, regular research is undertaken and reports are published on industrial and commercial problems throughout the world.

International bodies: apart from organizations sponsored by the UN there are some which are associated with the UN and others which are independent but co-operate. Such sources are generally very reliable and the main ones are:

World Health Organization (WHO) is mainly concerned with world health problems such as combating disease and giving guidance on hygiene. Its activities are of interest to marketing people who are engaged in the pharmaceutical trade.

International labor Office (ILO) is principally concerned with trying to find work and create employment in under-developed areas. To a certain extent, its activities run parallel with those of UNDP and UNIDO, but it concentrates mostly upon employment and training labor.

World Trade Organization (WTO) is mainly concerned with international negotiations on trade and tariff reforms, but also issues publications on trade and industry.

European through Eurostat Union is mainly concerned with the development of trade and industry in Europe. It has a range of publications on trade and industrial issues that are mainly

concerned with Europe. Since non-European countries have ties with the European Union, some publications also have studies and reports on other countries' activities.

Food and Agricultural Organization (FAO): associated with food and agriculture is the use of fertilizers and insecticides.

Organization for Economic Co-operation and Development (OECD): this organization's objective is to achieve in Europe the highest sustainable growth, employment and standard of living, to contribute to economic development and to expand world trade on a multilateral and non-discriminatory basis. As a result, the OECD produces many publications like *Food Marketing and Economic Growth* and *Organizing and Operating a Voluntary Food Agency*.

6. CONCLUSION

The rapid adoption of Internet-based technologies and the attendant development of e-business and e-commerce applications are having a revolutionary impact on the marketing discipline. Marketing information systems, in particular, are being transformed as these new technologies are enabling the integration of marketing, sales and customer service activities. The primary drivers of this shift are the promises of delivering increased value to the customer more rapidly and at less cost. Future implementations of MkIS will increasingly involve the customer in the value creation process and work to more effectively align the enterprise and its supply chain on rapidly changing market opportunities. The MkIS increases the number of options available to decision-makers and supports every element of marketing strategy. MkIS affects marketing's interfaces with customers, suppliers and other partners. The primary benefits of the MkIS impact in the areas of functional integration, market monitoring, strategy development, and strategy implementation. Through the use of market research and marketing intelligence activities the MkIS can enable the identification of emerging market segments, and the monitoring of the market environment for changes in consumer behavior, competitor activities, new technologies, economic conditions and governmental policies. Market research is situational in nature and focuses on specific strategic or tactical marketing initiatives. Marketing intelligence is continuous in nature and involves monitoring and analyzing a broad range of market-based activities and information sources. There are three major sources of market information. The first is syndicated data published by market research companies and industry associations. Company-sponsored primary research is another option. It is much more focused since you ask specific questions of respondents within your markets. But, it is considerably more expensive and time consuming. Perhaps the best data available are your own customer's behavior captured from web site viewing, point of sale (POS) transactions, and systematic feed back from the sales force. The MkIS provides the information necessary to develop marketing strategy. It supports strategy development for new products, product positioning, marketing communications (advertising, public relations, and sales promotion), pricing, personal selling, distribution, customer service and partnerships and alliances. The MkIS provides the foundation for the development information system-dependent e-commerce strategies. The MkIS provides support for product launches, enables the coordination of marketing strategies, and is an integral part of sales force automation (SFA), customer relationship management (CRM), and customer service systems implementations. The MkIS enables decision makers to more effectively manage the sales force as well as customer relationships. Some customer management software companies are extending their CRM applications to include partner relationship management (PRM) capabilities. This has become increasingly important as many marketers are choosing to outsource important marketing functions and form strategic alliances to address new markets. The MkIS enables the coordination of activities within the marketing department and between marketing and other organizational functions such as engineering, production, product management, finance, manufacturing, logistics, and customer service.

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BUSINESS PERFORMANCE OF THE INSURANCE COMPANIES IN CROATIA

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ABSTRACT

Achieving efficacy of insurance companies in contemporary business conditions requires a high quality database of financial and non-financial data in order to establish useful managerial reports and aid the process of decision making in business. The function of controlling acts towards achieving greater efficacy in business. Controlling includes activities of gathering, analyzing, storing and reporting, preparing and presenting business information necessary for making decisions. Controlling, as the managerial part of a business, is certainly an important factor in achieving efficacy of insurance companies. The premise is that companies with organized controlling function have higher level of business success than those without such activities.

Due to small number of theoretical research on the influence of controlling in increase of insurance companies` efficacy in Croatia, this paper will address insurance market in Croatia, establish the link between a company`s efficacy and liquidity, indebtedness and activity indicators over the period of seven years. The methods used are inductive and deductive, analysis and synthesis, compilation and comparative methods.

Keywords: *controlling, control, insurance company, efficacy, liquidity*

1. INTRODUCTION

Controlling is a multi-disciplinary technique, a function that is part of the management system, targeted toward data collection from all organizational units in a company with the aim to efficiently coordinate business processes and offer timely and accurate information to aid the management decision-making. Separating the ownership and management structures makes the communication and leadership process inside a company more difficult. The role of controlling is to connect and bind together all the organizational parts of the company, in order to increase the ability of a company to adjust to dynamic changes inside and outside company. Controlling started as an accounting process, and even today implementation of the controlling is not possible without the support of the accountancy information system.

Complete definition of the controlling is offered by the International Group of Controlling (IGC): „Controllers design and accompany the management process of goal-finding, planning and controlling and thus are co-responsible for reaching the objectives.“

The term controlling is derived from word control, that is: manage, direct, regulate, lead, control, check, compare. In the widest view, controlling is a component of the social systems management (Osmanagić-Bedenik, 2004). Controlling greatly aids the management. Controlling function is being introduced in production and trade companies, banks, insurance companies, education institutions, hospitals. DuPont-System of Financial Control, developed in 1919. in the DuPont chemical concern is based on the view that we shouldn't maximize the absolute size of income, but rather the relative size of the capital rentability.

The philosophy of controlling caused changes in the style of management and the structure of the levels of decision-making. Joint goals, set by the top management, are delegated to the multiple lower levels, while the organizational units take a part of the task, together with the given business goals (Mele, Colurcio, 2006).

Use of controlling in the company allows for new approaches to planning and running business where business results are measured, but also, the expenses have to be justified. The goal is to increase income through satisfying the needs of the market and the customers, while at the same time controlling the incurred expenses and finding ways to reduce them. The role of controlling is to plan how to perform business tasks, track the achievements or divergence from the plan or standard, analysis and identification of the source of the each divergence, producing reports for the efficient decision-making process, strategic planning, cost and effect calculation, internal informing and reporting, investment planning and special research (Holjevac, 2002).

The tasks of the controlling are: harmonization of planning, control, providing information, organization and human resources management, to make a strength/weaknesses company profile every three months, introducing and applying portfolio technique and the product lifetime expectancy concept, expert/advice counsel to define vision and goals of the company and each of its departments, harmonizing partial goals with the global goals and plans, providing expertise to reporting and interpretation, creating deadlines for planning, controlling and informing, and the other tasks from the manager or the self-initiative tasks which contribute to the efficiency and efficacy of the manager, and direct responsibility to the top management. These are obviously specific management tasks and functions, from planning, control, organization, human resources management to the elements of the strategic management, creating plans and goals. Controlling director participates in the creation of the strategy of the company, organizes and supervises its execution and reports the results to the management (Osmanagic-Bedenik, 2004).

Success in business has various definitions and measurements. Operative success is measured by the liquidity, indebtedness, activity, cost effectiveness, profitability, rentability, investment and other ratios and analysis of comparisons, divergence, cause, as well as calculations, plans, programmes, leadership styles and reward systems. Strategic success is measured by usage of strategic instruments such as vision and mission, causes of success, experience curve, life expectancy, SWOT analysis (Strengths, Weaknesses, Opportunities, Threats), strategic balance sheet, portfolio, quality control, divergence analysis, cause analysis, process organization, work distribution, motivational systems, systems for personal and career development. To be successful means to be in step with changes and initiate them, that is, to be proactive.

2. THE ROLE OF CONTROLLING AND BUSINESS SUCCESS OF THE INSURANCE COMPANIES

By using data from the aggregated balance sheets of the insurance companies in the Republic of Croatia for the 2008.-2014. period and data about total gross premium for insurance for the 2008.-2014. period, we have calculated the liquidity, debt and activity ratios. Cost effectiveness, profitability, rentability and investment ratios are not possible to calculate because of lack of data from the reports about the income of the insurance companies (income statements). By analysing the calculated liquidity, indebtedness and activity coefficients we can see whether there is a relation between business success of the insurance companies and the controlling function inside the company.

	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Receivables for inscribed, but unpaid capital							
Intangible assets	105.143	120.065	125.675	97.992	99.468	93.933	89.811
Tangible assets	2.095.018	2.534.096	2.507.050	2.343.189	2.239.427	1.927.697	1.782.693
Investments	18.735.973	20.584.892	22.699.282	24.283.214	26.328.347	26.977.561	29.063.178
Life insurance investments	426.657	521.607	630.662	694.621	799.441	853.006	894.622
Reinsurance share in technical reserve	985.326	978.744	1.076.726	1.271.603	1.346.694	1.314.293	1.462.332
Delayed and current taxable assets	132.197	77.381	57.836	71.555	47.241	113.839	244.965
Receivables	2.435.920	2.352.675	2.288.982	2.304.209	2.292.702	2.249.106	2.118.844
Other assets	414.667	392.223	313.283	419.234	408.537	426.508	408.912
AVR	359.194	357.945	415.178	437.031	488.076	554.750	580.791
TOTAL ASSETS	25.690.094	27.919.627	30.114.673	31.922.647	34.049.932	34.510.693	36.646.149
LIABILITIES							
Capital and reserves	4.374.124	5.169.174	5.463.531	5.942.199	7.003.037	6.764.590	7.830.824
Second order (subordinated) liabilities		167.065	141.630	41.808	41.880	37.315	43.542
Technical reserve	18.742.062	20.029.095	21.381.633	22.450.342	23.193.667	23.845.035	24.780.568
Reserve life insurance, insurer investment risk	407.306	518.864	629.952	690.605	798.381	848.137	892.718
Other reserves	39.522	97.421	99.800	100.962	126.133	131.513	274.249
Delayed and current taxable liabilities	53.258	200.207	352.557	393.316	422.680	251.911	393.066
Reinsurance deposits	233.062	276.569	357.005	416.568	440.232	436.969	457.776
Financial liabilities	531.049	137.966	185.219	216.513	318.093	540.498	189.048
Other liabilities	1.072.927	1.101.325	1.225.577	1.358.132	1.197.596	1.171.771	1.245.623
PVR	236.784	221.942	277.771	312.203	508.231	482.954	538.735
TOTAL LIABILITIES	25.690.094	27.919.627	30.114.673	31.922.647	34.049.932	34.510.693	36.646.149

Table 1. Aggregated insurance companies balance sheet at the end of the term, in HRK thousand (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

To be successful, stable and continuous in business, insurance companies must shape their investment portfolio by the following principles (Andrijašević, 1999):

- security principle (insurer invests in stable assets placement with which he covers the obligations towards the insured, even if those investments are of lower yield),
- liquidity principle (insurer is capable of meeting obligations towards the insured in any given moment)
- profitability principle (insurer is investing in placements with the highest yield, or the highest average yield, while adhering to the security principle)
- stability principle (insurer always has higher income than costs, not just in normal, but also crisis situations, thus reaching stability in meeting obligations).

Table following on the next page

Insurance by types	2008	2009	2010	2011	2012	2013	2014
Injury insurance	547.535	547.051	531.385	517.410	504.048	496.224	472.817
Health insurance	281.209	271.169	258.703	255.147	238.668	249.438	278.338
Road vehicles insurance	1.153.867	1.004.154	888.639	797.849	720.518	662.759	645.554
Rail vehicle insurance	1.646	3.145	6.094	5.325	4.346	6.705	7.097
Airplane insurance	16.811	19.878	23.440	15.130	7.536	8.947	8.322
Ship insurance	224.963	219.920	228.551	205.142	181.427	175.886	164.357
Goods transport insurance	91.392	68.074	66.964	62.120	51.617	55.530	45.270
Fire and elemental damage insurance	565.040	585.266	573.685	565.981	586.520	582.918	555.358
Insurance of other assets	783.383	773.651	763.740	755.922	709.196	669.498	587.873
Liability insurance for the use of MV	2.922.728	2.922.648	2.890.062	2.935.198	2.939.904	2.978.147	2.434.268
Liability insurance for the use of ZL	3.199	2.679	2.287	2.565	6.046	5.826	5.743
Liability insurance for the use of PL	38.401	40.844	42.817	36.622	35.890	37.844	41.672
Other liability insurance	277.941	269.295	266.303	289.348	288.439	309.904	301.735
Loan insurance	126.332	81.342	116.773	130.084	147.360	145.950	194.521
Guarantee insurance	4.042	2.388	4.580	7.869	8.050	6.245	6.171
Financial losses insurance	62.046	69.079	76.213	82.690	89.671	93.605	116.218
Legal protection expenses insurance	4.229	4.247	2.533	2.911	2.845	2.743	2.735
Travel insurance	35.565	37.831	45.090	46.663	55.241	50.016	55.525
Life insurance	2.140.992	2.143.134	2.095.817	2.092.895	2.134.691	2.231.682	2.322.980
Rent insurance	8.470	7.910	7.155	9.047	8.225	11.093	20.083
Other insurance in connection with life insurance	161.820	164.023	163.626	156.469	165.224	158.537	151.663
Wedding or birth insurance	10.383	10.180	9.244	8.969	8.244	7.601	6.796
Life insurance with risk transfer to insurer	224.110	163.427	167.285	163.888	144.770	129.501	136.263
Tontines							
Capital payment insurance							
TOTAL (non-life insurance)	7.140.327	6.922.661	6.787.860	6.713.977	6.577.321	6.538.186	5.923.573
TOTAL (life insurance)	2.545.775	2.488.675	2.443.127	2.431.268	2.461.154	2.538.414	2.637.784
Total	9.686.102	9.411.336	9.230.986	9.145.245	9.038.475	9.076.600	8.561.358

Table 2. Charged insurance premium – insurance companies for term 01.01.-31.12., from 2008-2014, HRK thousand (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

Liquidity is the ability of a company to transform non-monetary assets into cash assets. When those transformations flow with no interruptions, we say that the company cash flow is liquid. So, the liquidity ratios measure the ability of a company to meet current liabilities. These ratios are considered to be the ratios of the stability of a company (Grubisic, 2010).

Description / Year	2008.	2009.	2010.	2011.	2012.	2013.	2014.
Cash	414.667	392.223	313283	419.234	408.537	426.508	408.912
Current liabilities	2.127.080	1.938.009	2.398.129	2.696.732	2.886.832	2.884.103	2.824.248
Cash ratio	0,1949	0,2024	0,1306	0,1555	0,1415	0,1479	0,1448
Money + receivables	2.850.587	2.744.898	2.602.265	2.723.443	2.701.239	2.675.614	2.527.756
Current liabilities	2.127.080	1.938.009	2.398.129	2.696.732	2.886.832	2.884.103	2.824.248
Quick ratio	1,3401	1,4163	1,0851	1,0099	0,9357	0,9277	0,8950
Current assets	3.341.978	3.180.224	3.075.279	3.232.029	3.236.556	3.344.203	3.353.512
Current liabilities	2.127.080	1.938.009	2.398.129	2.696.732	2.886.832	2.884.103	2.824.248
Current ratio	1,5712	1,6410	1,2824	1,1985	1,1211	1,1595	1,1874
Fixed assets	22.348.117	24.739.404	27.039.395	28.690.619	30.813.377	31.166.490	33.292.636
Capital + long-term liabilities	23.563.014	25.981.618	27.716.544	29.225.915	31.163.100	31.626.590	33.821.901
Financial stability ratio	0,9484	0,9522	0,9756	0,9817	0,9888	0,9855	0,9844

Table 3. Liquidity ratios for 2008-2014 (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

Cash ratio shows if the company is able to raise enough cash to meet its current liabilities in short term. The ratio should be above 0,5. For the observed term 2008-2014 the current ratio is very low and shows the downward trend, therefore indicating poor liquidity of the insurance companies. Quick (or acid-test) ratio shows if the company is able to meet short-term liabilities by using its most liquid assets. This ratio should be at least 1, meaning that current liabilities should not be higher than the sum of company cash and current assets. If the ratio is higher, the company should improve its cash management to reduce the surplus cash, tighten the loan policy or reduce current assets for the benefit of fixed assets (Grubisic, 2010). For the observed term 2008-2014, the quick ratio is satisfactory although it does show a downward trend.

Current ratio shows us are the current assets of a company at least twice as valuable as the current liabilities. It is desirable to have this ratio higher than 2, meaning that the current assets must be at least twice as high as current liabilities. If this number is too high, it means the company is either not good at managing current assets, it has non-competitive stock or is not good at using short-term loans. If this ratio shows a downward trend, it is an indicator of an increase in current liabilities or or/and a reduction in the short term assets. A solution can be to increase the investment in current assets or reducing short-term liabilities. For the observed term 2008-2014 current ratio is not satisfactory and it shows a downward trend because current liabilities are on the rise. Financial stability ratio shows us how long the fixed assets have been financed from long-term liabilities. This ratio must be lower than 1, because it shows the net working capital (the difference between current assets and current liabilities) is increasing, which helps to maintain liquidity. For the observed term 2008-2014 the financial stability ratio is satisfactory.

Description / Year	2008.	2009.	2010.	2011.	2012.	2013.	2014.
Total liabilities	21.315.970	22.750.454	24.651.144	25.980.449	27.046.893	27.746.103	28.815.325
Total assets	25.690.094	27.919.627	30.114.673	31.922.647	34.049.932	34.510.693	36.646.149
Debt ratio	0,8297	0,8149	0,8186	0,8139	0,7943	0,8040	0,7863
Capital	4.374.124	5.169.174	5.463.531	5.942.199	7.003.037	6.764.590	7.830.824
Total assets	25.690.094	27.919.627	30.114.673	31.922.647	34.049.932	34.510.693	36.646.149
Own financing ratio	0,1703	0,1851	0,1814	0,1861	0,2057	0,1960	0,2137
Total liabilities	21.315.970	22.750.454	24.651.144	25.980.449	27.046.893	27.746.103	28.815.325
Capital	4.374.124	5.169.174	5.463.531	5.942.199	7.003.037	6.764.590	7.830.824
Financing ratio	4,8732	4,4012	4,5119	4,3722	3,8622	4,1017	3,6797
Capital	4.374.124	5.169.174	5.463.531	5.942.199	7.003.037	6.764.590	7.830.824
Fixed assets	22.348.117	24.739.404	27.039.395	28.690.619	30.813.377	31.166.490	33.292.636
CPI.	0,1957	0,2089	0,2021	0,2071	0,2273	0,2170	0,2352
Capital + long-term liabilities	23.563.014	25.981.618	27.716.544	29.225.915	31.163.100	31.626.590	33.821.901
Fixed assets	22.348.117	24.739.404	27.039.395	28.690.619	30.813.377	31.166.490	33.292.636
CP II.	1,0544	1,0502	1,0250	1,0187	1,0113	1,0148	1,0159

Table 4. Debt ratios for 2008-2014 (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

Debt ratios measure the rate of external financial sources and are used to estimate the financial risk and accordingly, financial security of the company. Debt ratios show the structure of assets and liabilities in the balance sheet and how much of the assets were financed from own and from external sources of capital, and therefore, through these ratios we can measure the ratio of own and external sources of capital. Debt ratio shows how much of the total assets were financed from the external sources. This ratio is expressed as a percentage, and it has to be

lower than 50%, meaning that the company is not too indebted and therefore safe for further investment. A ratio greater than 50% indicates that the company bears high risk, with higher expenses for interest. For the observed period from 2008 to 2014 the debt ratio is low and unfavourable. Own financing ratio tells us the ratio of own assets in business operation funding. The ratio needs to be greater than 50%, meaning that the business operations were funded by more than 50% from own assets. For the observed period from 2008 to 2014 the own financing ratio is low and unfavourable. Financing ratio indicates the risk of investment in a company. Lower ratio indicates lower risk, while greater ratio indicates greater risk of investing in a company. For the observed period from 2008 to 2014 the financing ratio is high and therefore unfavourable. Coverage point I. (CP I.) and coverage point II. (CP II.) are used to show the coverage of the fixed assets by the capital of a company. Coverage point I. (Golden banking rule) shows the time coverage, while the coverage point II. (Golden balance sheet rule) shows the ownership coverage. The ratio for CP I. must always be greater than 0,5, while the CP II. must always be greater than 1,0 because the part of the fixed assets, for the reason of liquidity, must be used to finance current liabilities. For the observed period from 2008 to 2014 the CP I. ratio is unfavourable, while the CP II. ratio is satisfactory.

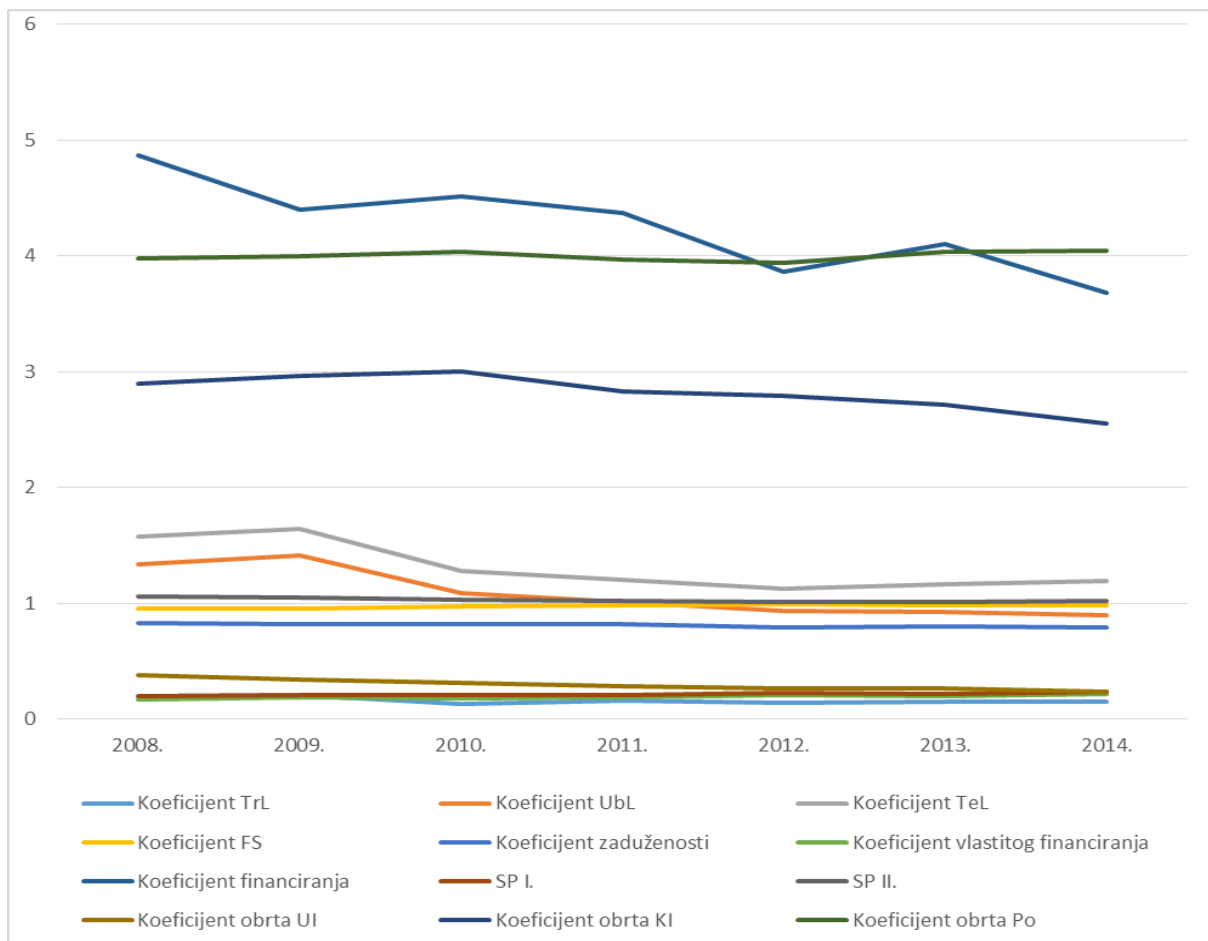
Description / Year	2008.	2009.	2010.	2011.	2012.	2013.	2014.
Charged insurance premium	9.686.102	9.411.336	9.230.986	9.145.245	9.038.475	9.076.600	8.561.358
Total assets	25.690.094	27.919.627	30.114.673	31.922.647	34.049.932	34.510.693	36.646.149
Asset turnover	0,3770	0,3371	0,3065	0,2865	0,2654	0,2630	0,2336
Charged insurance premium	9.686.102	9.411.336	9.230.986	9.145.245	9.038.475	9.076.600	8.561.358
Current assets	3.341.978	3.180.224	3.075.279	3.232.029	3.236.556	3.344.203	3.353.512
Current asset turnover	2,8983	2,9593	3,0017	2,8296	2,7926	2,7141	2,5530
Charged insurance premium	9.686.102	9.411.336	9.230.986	9.145.245	9.038.475	9.076.600	8.561.358
Receivables	2.435.920	2.352.675	2.288.982	2.304.209	2.292.702	2.249.106	2.118.844
Receivables turnover	3,9764	4,0003	4,0328	3,9689	3,9423	4,0356	4,0406
365 days	365	365	365	365	365	365	365
Receivables turnover	3,9764	4,0003	4,0328	3,9689	3,9423	4,0356	4,0406
Receivables turnover period	91,7916	91,2432	90,5078	91,9650	92,5855	90,4450	90,3331

Table 5. Activity ratios for 2008-2014 (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

Asset turnover shows how many days is necessary to generate revenue in the value of total assets, or a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. This ratio should be as high as possible, and is expressed as a coefficient. For the observed period from 2008 to 2014 the asset turnover indicates bad asset management because each HRK of invested yields between 0,37 HRK to 0,23 HRK of income from charged premium. Current asset turnover shows how many times the current assets provide revenue in the same amount in one year. It is desirable for this ratio to be as high as possible. For the observed period from 2008 to 2014 the current asset turnover indicates bad asset management because each HRK of invested current assets yield between 2,90 HRK to 2,55 HRK of income from charged premium. Fixed asset turnover indicates the efficiency of use of machinery and equipment in the company. It is desirable to keep this ratio as high as possible. In industrial companies it is usually around 1,1. Low ratio indicates problems with marketing or efficiency in use of fixed assets. Receivables turnover indicates how much income can be made with the investment of 1 HRK in receivables. Desirable size of this ratio is 3,6, and for the observed period from 2008 to 2014 receivables

turnover is satisfactory. Receivables turnover period shows us the period of waiting until the receivables are cashed. This ratio reflects the efficiency in charging receivables, credit policy or management activity. Ratio for receivables turnover in this industry is around 100 days. High ratio reflects the non-liquidity crisis. Meaning of analysis of financial report is being observed primarily from the aspect of business and development management. Analysis precedes the management process, that is, precedes the process of planning which is an integral part of the management of a company. The aim of the analysis is to recognize the good features of a company which can be used as an advantage, but also to recognize the weaknesses of a company which should be removed by the management.

Analysis of the financial reports using the system of ratios gives the highest quality information about the safety or the successful management, giving a full health report of a company. Therefore, accounting is one of the most significant contributors to the successful process of controlling. The quality of the core accounting reports is therefore vital. Without the solid information from the financial reports the function of controlling has no groundwork for the business decision making. The controller (employed in controlling department) must be skilled in reading and understanding the financial reports and understand how they interlink. Fundamental and comprehensive analysis of the financial reports allows the controller to better predict the future trends in the company.



Graph 1: Development of liquidity, debt and activity ratios for the period 2008-2014 (Source: authors' interpretation based on statistical data released by Hanfa, <http://www.hanfa.hr/HR/nav/106/statistika.html>, accessed on 06. April 2017.)

It can be assumed that the companies which have the controlling department are more successful than the companies without it, which proves the important contribution of controlling to the business success. From the example of analysis of the financial reports by using liquidity, debt and activity ratios, using existing information from the aggregated balance sheets of the insurance companies and charged total insurance premiums for the period 2008-2014, we can conclude that the ratios move from unsatisfactory to satisfactory. Based on that, we can assume that the ratios would be even worse without the controlling function in insurance companies. It is visible from the Graph 1. that the global economic crisis has affected the insurance business, because the liquidity, debt and activity ratios have a downward trend since 2009.

3. CONCLUSION

Attaining success in business depends upon many factors. This paper demonstrated the importance of controlling upon the business success of the insurance companies using analysis of the financial ratios. Given results point to conclusion that the controlling function directly increases the probability of success in business, given that insurance companies have organized controlling departments as standard in this industry. Those particular standards of insurance companies manifest in the relation between customers who are offered a service/product which is actually a legally regulated contract between two sides. Buyers of insurance/the insured trust the insurers to take care of their property, investing their money in the products and services of the insurance companies. Insured expect monetary return from the fund which is established with funds from premium payments of all the persons who are part of the fund. Insurance company organization must be reliable and stable in the long term, as it has to provide necessary security and trust. It also needs to have the necessary quality of organization and a system which will constantly guarantee security and stability, and which will be efficient and effective from the insurers point of view. To achieve all this, insurance companies management uses controlling and the contemporary concepts of managerial analysis and reporting (Meter, 2014). Based on the conducted research and analysis we conclude that the controlling system is gaining on importance in modern and globalized business environment, in the system of international standards. Controlling is an instrument which directly affects the business results. Data obtained by the data analysis is an instrument in operative and strategic management. Looking strategically, controlling system allows influence on procurement, marketing, investment and development functions of the insurance companies. Looking operatively, the data from the controlling system allows for daily operative work in human resource management and for tracking overhead costs. So, the influence of controlling is confirmed on all management functions: planning, organizing, leading and control, as well as operative and strategic dimension of running business, and therefore directly affecting business success of the insurance companies.

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ROLE OF AUDITING IN CONTROLL PUBLIC SPENDING PROCESS STUDY OF THE FINANCIAL SECRETARIAT OF LIBYA- GHARYAN

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ABSTRACT

This research deals with the role of the audit in the maintenance of public money in accordance with the laws and regulations the institutions and government agencies. The Audit is a branch of the humanities as it is an independent professional one require some kind of specialized education. The Audit screening process for the collection of information in order to verify the argument, and then show a neutral technical opinion on the validity and fairness of the financial statements, according to a set of objective criteria to reflect the needs of the users of those statements. Research problem is based on inadequate implementation of law sand financial regulations in the Libyan government bodies and the lack of accounting policies that help in the reduction of public spending in addition to the lack of staff expertise to the concept of financial law of the state and the lack of specific knowledge of the type of embezzlement, who spoke in the public world and the lack of interest by the reviewers to apply auditing methods magazines using modern control systems and the absence of a periodic review of the records of public bodies of the computer technologies.

Keywords: *audit, finance, government, Libya and audit, public spending*

1. INTRODUCTION

This research deals with the role of the audit in the maintenance of public money in accordance with the laws and regulations the institutions and government agencies. The Audit is a branch of the humanities as it is an independent professional one require some kind of specialized education. The Audit screening process for the collection of information in order to verify the argument, and then show a neutral technical opinion on the validity and fairness of the financial statements, according to a set of objective criteria to reflect the needs of the users of those statements.

Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company or a business. However, recent auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns. With nonprofit organizations and government agencies, there has been an increasing need for performance audits, examining their success in satisfying mission objectives. As a result, there are now audit professionals who specialize in security audits, information systems audits, and environmental audits. In cost accounting, it is a process for verifying the cost of manufacturing or producing of any article, on the basis of accounts measuring the use of material, labor or other items of cost.

In simple words the term, cost audit, means a systematic and accurate verification of the cost accounts and records, and checking for adherence to the cost accounting objectives. An audit must adhere to generally accepted standards established by governing bodies. These standards assure third parties or external users that they can rely upon the auditor's opinion on the fairness of financial statements, or other subjects on which the auditor expresses an opinion.

2. THE CHARACTERISTIC OF PUBLIC SPENDING

In many countries, public sector organisations provide critical services such as healthcare, education, transport and criminal justice services. Their performance affects the quality and cost of the services. Inter-country comparisons have revealed that the quality of a nation's public institutions has a significant effect on national wellbeing (Khdir, 2010). Within public sectors around the world, a select group of public sector oversight bodies are assigned the goal of improving aspects of public sector performance. This group includes supreme audit institutions (SAIs), parliamentary ombudsmen persons, anticorruption commissions, public service commissions, some types of regulatory agencies and some single-issue bodies such as transport commissions and health services commissions. Researchers in law, economics, public policy and accounting have shown an increasing interest in analysing the day-to-day activities of such public sector oversight bodies and measuring their impact on the performance of public sector organisations.

2.1. Public expenditure management

Public expenditure management has always been a very important issue, which is specifically important in critical situations when the fiscal position of the country is at risk. Systemic public expenditure management determines the procedures that define the movement of public funds. In this way it seeks to ensure the efficient use of funds, fiscal discipline and implementation of strategic priorities. The above-mentioned procedures imply monitoring of the fiscal position of a specific country and the maintenance of public expenditure within the budget limits. This process of various institutions requires the implementation of activities to prioritize and analyze policy options for optimal allocation of available resources.

Public expenditure management systems over the years have evolved, reflecting the growing trend of so-called assignments that have a government, and therefore changes in the budgets. However, success in the formulation and the implementation of fiscal policy largely depends on the attention that public institutions devote to designing daily activities within the system of public expenditure management. The basis of public expenditure management is striving for the improvement of the economy, achieving efficiency and effectiveness in mobilizing, allocating and optimizing public expenditures (Musgrave, 1989). Logically, public expenditure management can have far-reaching consequences on the management of public funds and varies depending on the country.

There are different definitions with more or less success trying to define the term and structure public expenditure. However, a common starting point of all these definitions is that public expenditure represents expenditure of the State in order to meet public needs. More specifically, the public expenses are the total cost of implementation of government activities, within which the government conducts its regular duties and responsibilities, providing certain goods and services for its citizens and ensuring the implementation of certain financial transfers (Musgrave, 1989).

The concept that best represents the total public expenditure is known as general government expenditure. General government, as defined by the OECD, comprises central government, local authorities and extrabudgetary funds. As part of this concept is the total amount of government expenditure, which is financed by tax revenue or borrowing. Total expenditure at the level of the general government are equal to general government expenditure for the following categories:

intermediate consumption, compensation of employees, subsidies, social benefits and social transfers in kind, other current transfers, income from property, capital transfers, adjustment for changes in net equity of households the reserves of pension funds, gross capital formation and acquisitions of non-financial property (Ouanes and Thakur, 1997). The total expenditures of the general government are included and taxes on income and property, as well as all other taxes on production, which the government is obliged to pay. The efficiency of public expenditure largely depend on government policy in the field of employment and salaries in the civil service. When measuring the overall performance of the public sector, special attention is paid to the analysis of the total public expenditure. In order to better understand the entire concept of public expenditures, here it is necessary to point out the distinction that exists between the categories of total public expenditure and public spending (Table 1).

Table 1. Overview of categories of public expenditure and public spending

EXPENDITURES	PUBLIC SPENDING
Intermediate consumption	Compensation of employees
Gross investments	Procurement of goods and services and other intermediate consumption
Compensation of employees	Cost of fixed capital
Other taxes on production	Procurement of goods and services by the government for households
Subsidies	Other taxes on production
Incomes from property	Minus the partial payment of households or firms
Current taxes on income, assets, etc	Services provided by the government
Social benefits without non-cash social transfers	
Social transfers in kind related to expenditure for products that are	
Other current transfers	
Adjustment for changes in net equity of households in pension funds reserves	
Capital transfers	
Acquisition of non-financial non-productive assets	

In fact, part of the total public expenditure allocated to that State production of final non-market goods and services (net of any gross) and part of the expenditure market goods and services provided in the form of non-cash social transfers make public consumption. Although from a fiscal perspective, total public spending may be no political significance what are the total public expenditure, the role of public spending as a component of total GDP nevertheless is significant, since it provides direct insight into the efficiency of the public sector (OECD, 2009). Public consumption is the sum of the tasks that the government has to cover the cost of labor, goods, services, fixed capital, including taxes less subsidies on production of non-market output, less the sale of non-economic structures, plus costs for goods and services directly delivered to households by market producers (classified as non-monetary social transfers). As a component of GDP expressed on the expenditure basis, public spending is used to calculate the percentage of domestic production, which consumes the public sector. The public sector is

due to the inability of the market to meet the specific needs and often includes production activities. The market is simply not able to provide certain public goods, which used collectively and do not provide any personal profit. As an example the national Security and Law Enforcement. In such cases, governments seek to compensate for market deficiencies in public expenditure planning, relevant regulations and tax policy in order to to fund such expenditures. By specifying and defining policy expenditure and tax policy in the long term, the government may opt for limited or a more active role in the overall socioeconomic developments (Ouanes and Thakur, 1997). In this context, there is an evident trend of improving transparency in the work of the government is present in modern market economies.

2.2. Functional classification of public expenditure

The structure of public expenditure classified by purpose (function) is:

- 1) Expenditures of the state administration - including both personal and material expenditure earmarked for the financing of activities and work of the state apparatus at all levels of socio-political organization. These expenditures do not contain the male organs of public expenditure intended for internal security.
- 2) Expenditures for national defense (military expenditures) - occupy a prominent place in the structure of public expenditure in each country. They are largely influenced by the overall international relations and developments in the world.
- 3) Expenses of the judiciary, prosecutors and Attorney - are certain funds that are required to perform tasks for which they execute, based on the constitution and law, the appropriate competent state institutions.
- 4) Education expenditure - are the most important items in the expenditure of modern states. In modern states of education expenditures are among the public expenditure, which are very significant in scope. In most countries, are increasingly accepted view that depending on the level of education of the population and adequate qualification structure of employees depends on the overall socio-political and economic development of the country.
- 5) Expenditures for culture, physical culture and sport - as well as expenditures for education have a direct impact on the overall social and economic development of the country. In most countries most of the expenses for the construction, equipping, maintenance and operation of museums, theaters and other cultural institutions, mainly financed from the budget through other instruments of redistribution (funds).
- 6) Expenditures for science - are all significant public expenditure in most modern countries. Besides the already mentioned education, scientific research contributes to a large percentage increase in the rate of economic growth and increasing labor productivity.
- 7) Expenditures for environmental purposes - are among the youngest public expenditure, but today are most marked growth dynamics. Public expenditure intended for the protection of water, air and soil pollution, as well as expenditures for the reduction of the degree of radiation and noise, almost to have become so-called. "International" public expenditure.
- 8) Expenditures for economic intervention and investment - are linked to the increased role of the modern state in economic and social life. There are in fact a number of forms of direct and indirect state intervention in a wide range of economic and social functions. Various measures of direct and indirect intervention of the state in the national economy, the state can influence the economic conditions, increasing exports, limiting imports, directing investment, faster development of individual branches and areas, changing economic structure, as well as implementation of macroeconomic stabilization programs in cases of economic stagnation and recession, or any other form of disturbance of economic trends.
- 9) Expenditure of social security of the population - are public expenditures which usually are among the largest expenses in almost all modern states. Here are the things you like about the two types of social security of the population.

First, it is a segment of social insurance, in that mandatory, so that voluntary, which includes three types of social security:

- a) the pension and disability insurance,
- b) health insurance, and
- c) unemployment insurance.

Secondly, it is the various forms of social protection of all those categories of citizens who, for various reasons, are not in a position to provide adequate existence itself.

3. THE SCOPE OF PUBLIC EXPENDITURE

Modern Financial Sciences devotes more attention to the study of the effects of public expenditure, since in modern conditions the public expenditure become an important instrument which affects the economic and political events. There is no single vision on the effects that can be achieved through public expenditure. Historically there have been two basic concepts related to the effects of public spending: first, the concept of a neutral public expenditure, and secondly, the concept of active public expenditure. The notion of neutrality expenditure incurred in the context of classical bourgeois financial theory, and according to the same public expenditures have a completely neutral effect on economic trends. This concept stems from the basic assumptions of the theory of liberal capitalism, where private initiative had primacy over the involvement of the state in economic affairs.

During the last four decades has developed the concept of active expenditure, which places emphasis on the economic, political and socio-political influence on public expenditures, while spending a single act of financial resources put into the background. The government actively affects three main areas: the production, consumption and socio-economic relations in the country. The impact of public expenditure on production - these effects can be realized in two ways: directly and indirectly. The direct impact of public expenditures on production is reflected in the raising and the creation of production and other capacities, followed by investments in government and public manufacturing companies, which in turn directly to the increase in production and therefore increase the national income. Indirect impacts of public expenditures on production realized through *djejtva* expenditure incurred in education, health, welfare and so on. The impact of public expenditure on consumption - is manifested in various ways. One part of the effects of public expenditure on consumption is reflected in the fact that it was through certain types of public expenditure creates purchasing power, where it was not, or does it further increases. Globally, increases the demand. The impact of public expenditure on economic and social relations - are best observed by observing the category of transfer of public expenditure, because the basic function of transfer spending is the distribution and redistribution of social product and national income. *Trasferni* expenditures do not lead to changes in the size of the national income, but are used primarily in the redistributive purposes. As the most important category of transfer expenditures, which are singled out in terms of economic policy effects emphasize the interest on public debt, expenditure on social insurance, social assistance employees, etc. In terms of transfer expenditure especially in recent times increasingly attracts the attention of an increase in interest rates and, in this regard, the increase in expenditures allocated to servicing the demands of a growing public debt. It is necessary to point out that other categories of transfer expenditures (social welfare, subsidies, etc.) also recorded an increase, especially in recent times.

The effects of public expenditure can be systematized into two groups:

- 1) *Conuctural* (short-term) effects and
- 2) *Structural* (long-term) effects.

Conuctural effecsts derives from the legality of that growth in public expenditure increases demand, and demand growth drives offer.

Structural effects are reflected in the fact that the state redistribution of income changes the structure of aggregate supply and demand, and thus long-lasting effects on the structure of economic activity.

Finally, regarding the scope of public expenditure should be noted that:

- 1) Public expenditure still act on the economy and society, because the structure of public expenditures is different from the structure of private consumption;
- 2) The concept of neutral public expenditure that is a side effect, while the concept of active public expenditures achieve certain economic or social purpose of spending targets. Requires extreme care in the use of public expenditures to achieve economic and social goals (limitation of knowledge, unreliable data, the time lag between spending and results, etc.);
- 3) There are no universal recipes for achieving economic and social objectives through changing the scope and structure of public spending.

4. PUBLIC SECTOR IN LIBYA

Main public sector in Libya is oil and gas sector. After the discovery of oil and gas, before the 1969 revolution, all sectors in Libya were privately controlled by a number of international companies, most of which were working in the oil and gas field. Since the revolution in 1969, Libya has, like many countries in the region, experimented with central planning and nationalisation in an attempt to promote economic growth and development. Thus, the public sectors have been used to takeover and dominate the Libyan economy (Khdir, 2010). However, state-owned companies tended to be less efficient than private sector companies. In Libya, lacking market motivation, public companies were less productive and innovative and therefore registered low returns or losses. As a result, privatisation programmes started with the incorporation and sale of state enterprises in the industrial sector. There have been three management styles used in public sector enterprises since the mid 1970's. Originally, enterprises were controlled by the General Director responsible to the Board of Directors. However, oversight of the chief executive is now by management committee or people's committee.

The first managerial mechanism was the Management Committee or the Administration Board. This was used to run socialist companies in general, and the oil and gas, and industrial sectors in particular. The committee is composed of the president and two to four members. This committee is accountable to and controlled by the company's General Assembly. The Management Committee (within the boundaries of laws, regulations, decisions and recommendations) manages a company and forms the general policies to achieve its objectives, which should be ratified by the General Assembly. Thus the company's manager applies these policies and uses them as a guide for his/her decisions and procedures. For instance, the committee may recommend a relevant general policy, such as to study the budget, balance sheet, profit and loss account, and issue internal regulations (Khdir, 2010).

Management by a general representative was the second type of management used in the public companies. The representative's role is very similar to that of what is known in western companies as a chief executive, in that he/she holds the final decision-making authority in the company, but with the difference that the powers of the former are limited due to the intervention of upper government levels, such as the GP-Congress, GPCommittee, etc (Khdir, 2010). Since socialism was the dogma of the 1969 coup, the public sector was encouraged to take over and dominate the Libyan economy. Consequently, management by people's committee was introduced into the public sector companies. In order to achieve the revolutionary ideal of handing over the ultimate authority to the people, considerable efforts were made in this direction by the 1969 coup leader. These efforts were intended to replace all managerial forms with management by people's committee in all government organizations and companies. Despite these efforts, the oil and gas sector's response to these changes came

only after a considerable time in comparison with other sectors, such as industry, agriculture and finance. However, most oil and gas companies introduced the new type of management by people's committee only from early 1990, after long discussion with the National Oil Corporation (NOC), the Secretariat of Petroleum, GPC and GP Congress; this system is still in use by most public sector companies. It is expected that following the recent political change in Libya, a new government will restore more modern management systems.

5. PROCESS STUDY OF THE FINANCIAL SECRETARIAT OF LIBYA- GHARYAN

The study population is represented in the most significant service sectors, which are the control of financial services that spread out all over Libya. In order to subject such departments to the same rules, laws and legislations and due to the remoteness and spreading (or stretching) of the items of this population and due to the difficulty for Researcher to undertake an integral survey for all its items, and because of the considerations of time, cost and effort, this study shall be limited to one sample therefrom. The study sample is thus limited to the financial services controllers in Gharyan who are (129) employee whereas a questionnaire form is distributed to the employees of the control object of examination and study. After the process of emptying such forms, it appeared that (104) questionnaire forms were recovered, which were all valid for statistical analysis and (20) of them were missing and (5) were invalid for analysis. In this study, a group of tests and statistical manners were used to carry out the appropriate analyses for the data of the study sample. The program R packages, version 3.2.2 has been used. The biggest rate of the sample's individuals was for the holders of master degree (M.Sc.) whereas their percentage reached 33% followed by the holders of bachelor degree (B.Sc.) whereas their percentage reached 28% while the percentage of those who obtained the Ph.D. reached 16% and it is noticed that the lesser percentage was for the holders of intermediate and high diploma which was 12% and 11% respectively among the individuals of the sample. Results are considered to be an indication of the understanding of the research topic by the participants and consequently, their response shall be of a great degree of conformity and this gives an indication of the presence of a good educational level, which shall in turn lead to the fact that the responses are more accurate.

Through the results of t-test, the following appears to us: respondents perceive that there is inexperience in the employee of audit in the field of internal audit, which indicates that P-value for this paragraph which was small than 5%, which means the rejection of the nil hypothesis and acceptance of the alternative hypothesis, concerning the experience weakness of the audit employee in the financial laws and regulations related to audit, it appears that P-value, which was smaller than 5%, which is indicative of the presence of weakness in the experience of the audit employee in the financial laws and regulations related to audit, with regards to the existence of a documentary cycle (or course) within the financial institution as per the recognized financial basics and regulations, it appears that P-value is smaller than 5%, which refers to the fact that respondents agree upon this paragraph which means that there is a documentary cycle within the financial institution as per the recognized financial basics and regulations, respondents stress that audit requires the independency (or autonomy) of auditor from the high management in the institution and this is indicated by P-value, respondents perceive to curb and disclose the shortages in the performance of the financial institution through the department of audit and this has been indicated by P-value, which was smaller than 5%, respondents underline that the financial irregularities shall be subdued and treated inside the department of audit in the institution and this is substantiated by P-value for this paragraph, which was smaller than 5%.

5.1. Results of study

There is inexperience in the audit employee in the field of internal audit in Libya. There is weakness in the experience of the audit employee in the financial laws and regulations related to audit. Existence of a documentary cycle within the financial institution as per the recognized financial basics and regulations. Audit requires the independency of the auditor from the high management of the institution. Defaults in the performance of the financial institution shall be subdued and disclosed by means of the audit department. The financial irregularities shall be contained and shall be treated within the department of audit of the institution.

Following up the performance of other departments of the institution is among the tasks and goals of audit. The success of the financial institution is considered to be the evidence that the audit function is fully performing. The success of the high management is considered to be the success of businesses and the function of the audit department. Attention has to be paid by using the modern techniques in the field of audit. It is necessary that the audit personnel abides by the audit standards. The audit standards represent a general framework for the work of the audit personnel. Auditors have to be committed to ethics and conducts of the audit profession. The existence of ledgers and accounting records inside the financial institution is considered to be an evidence of the success of the audit operation. The periodical evaluation of the function of internal audit shall lead to the promotion and improvement of audit services with high efficiency.

The singlehandedly achievement by a particular person or employee of the whole audit works shall lead to negative results that do not serve the institution. The preservation of documents that come to the department of audit in secure places shall lead to the advancement of the audit work or the performance of the audit employee. The degree of efficiency of the internal audit within the institution shall grow with the increase of strength and correlation of the internal control system. The inclusion of audit employee in training courses to lift the efficiency and experiences of the personnel in the field of audit. The scientific and practical qualification of the audit personnel shall lead to the improvement of the quality and efficiency of audit. The existence of audit gives the necessary confidence of the users or beneficiaries of audit services. Closing the final accounts of the institution on time has a positive effect on the audit function. The periodical reports on the progress of work in the other departments is considered to be among the functions of the audit department. Existence of audit within the institution shall lead to solving problems such as the increase of public expenditure. The sudden decisions of management have a negative impact on the work and performance of the audit function. Granting incentives and remunerations shall encourage the personnel in the audit department on the distinguished occupational performance. By testing the study hypotheses, this study reached the following results:

1. The routine decisions in the departments of audit negatively affect the keeping of public expenditure under control and consequently, the personnel of the public sector should be endowed of experience in the notion of the state's financial law in order to reduce the public fund wasting.
2. The abundance of the state's personnel by implementing the financial laws and regulations in force in the public sector has a positive impact on the audit function and consequently, it shall help in preserving the state's public fund.
3. The effective institutional control and the use of accounting policies within the financial institution help to minimize the wasting of public fund and reduce public expenditure.

4. The periodical and continuous audit by the audit personnel in the financial institution of the public sector and the activation of the internal audit role help solving the problems of the internal control and public expenditure.

5. The abidance by the audit standards and considering it to be a general framework of the work of the audit personnel and the commitment of the auditors to the morals and conducts of the audit profession lead to the preservation of the public fund and subdual of the public expenditure.

6. The public expenditure aims at improving the state's revenues in order to face its expenses and realize a public interest and promote the state's abilities in all the fields and collectively satisfy the necessities of society's individuals.

4. CONSLUSION

Researchers recommends the necessity to activate the role of internal audit, namely in the public sector and should be continuous all over the year in such a way it shall involve all the administrative and financial operations within the financial institution. Necessity of the abidance of the personnel in the department of audit by the recognized audit standards including impartiality and objectivity when performing the function of audit.

The necessary independence of auditor from management is considered to be one of the important standards for the practice of the audit profession until auditor is independent to express his opinion without restrictions. Works towards spreading consciousness of the significance of audit within the governmental units by holding open meetings between the employees in order to clarify the significance of audit and motivate the personnel in all the administrations of the entity in order to build efficient relationships with the audited administrations until the negative look towards the work of the audit unit is changed.

Continuously and periodically increase workshops for the auditors in order to treat topics that require from auditor to be conversant therewith such as the laws and regulations related to the practice of audit profession and the instructions and publications issued by the controlling authorities considering them to be the authority supervising the work of the audit unit.

Necessary coordination between the Libyan Bureau of Audit and the Ministry of Finance and the other control devices in order to set up the standards of the audit work. Introduction of legislative texts for the Libyan Audit Bureau in such a way to agree and line with the standards issued by the World Federation of Auditors and act according to such texts when expressing the professional opinion to the authorities to be controlled.

Ministries and the public sectors affiliated to the State ought to impose limits to the public spending in such a way not to exceed the allocations stipulated in the general budget of the State and such authorities shall supervise such disbursements and follow up spending as per the items of the budget. Necessity to take care of the internal control system within the financial institution as a first step during the performance of the audit operation in order to identify the extent of efficacy and efficiency of the control system and determine the points of strength and weakness therein.

Necessity to follow up the disbursements of the State and it expenditures no matter their type, in general or in particular. The State has to take care of the role of internal audit in the governmental units for the goals they realize to help management by setting an internal audit office in every public authority and give the internal auditor the full freedom to exercise his tasks.

The State has to provide the necessary funding resources in order to achieve the goals of public spending and use such resources appropriately and with high efficiency. The general budget is the main management through which this goal shall be attained.

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INFLUENCE OF THE NATIONAL SECURITY STRATEGIES OF THE USA FROM 2002 AND 2006 ON THE SOCIAL AND ECONOMIC DEVELOPMENT OF AP KOSOVO AND METOHILJA

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ABSTRACT

This work will point out the national security strategies of the United States of America, which were created during 2002 and 2006, as well as what they each were characterized by, although they did not differ essentially, and they are still preferential interests of the USA, with the focus to perceive how and in what way they influenced the social and economic development of the Autonomous Province of Kosovo and Metohija. The goal of this work is to perceive the influence of the economy from safety aspects, especially at the time when in Kosovo and Metohija, which is still an integral part of the Republic of Serbia, the illegal privatization of state – owned enterprises of the Republic of Serbia is being performed.

Keywords: *security, national security, USA, Kosovo and Metohija, the Republic of Serbia*

1. INTRODUCTION

To understand the national security strategy of the USA, it is necessary to observe the research subject of strategic and security studies from Western literature's point of view. Strategic studies have become the dominant subdivision in the studies of international politics in the period from 1950 to 1980, but with the reduction of tensions between the East and the West in the early 1990's, the Cold War was no longer relevant with regard to newly created changes in the world politics. The trend to use force dropped, and the intellectual attention was directed to new themes which were fit into the process of globalization, which, as many believe, transformed the entire foundation of the international relations. In this international ambient, the focus was moved towards the studies of security. However, bearing in mind that a great number of conflicts have marked the period from the Cold War till today, the role of force still affects the creation of domestic and world policy, which means that strategic studies are still relevant.

Finally, we analyzed the national security strategies of America from 2002 and 2006, in order to clarify the defined threats to national security and the resources that are protecting the determined values and American national interest. The results of individual analyses are compared by means of the comparative method by which the general hypothesis has been confirmed, which says that national security strategies of the United States of America from 2002 and 2006 are rhetorically different documents, but that national interests, goals and resources of attaining the national security goals are identical.

Perceiving how much significance is given to the strategic documents of the USA and how powerful the USA is as a global state, in the following work we will perceive how and in what way the policy influences the Republic of Serbia through the strategy of national security, where Kosovo and Metohija is an inalienable part.¹

¹ The Constitution of the Republic of Serbia, the Official Gazette of RS, 2006, Belgrade

2. THE NATIONAL SECURITY STRATEGIES OF THE UNITED STATES OF AMERICA (2002 AND 2006)

After the end of the Cold War, the world was marked, for the first time, with the improper distribution of power and influence. The United States became the only global force (Brzezinski) and their power was proved in the military, economic, technological and cultural domain. In that period, the global predominance of America brought the international system to a short, unipolar phase, in which the American interests and their understanding of national and international security marked the whole world. States were confronted in that period with three important challenges. Firstly, they lost the ability of promoting their own power in the effective way. The loss of the ability also caused the loss of sovereignty. Secondly, states (even the unipolar hegemonic state such as the United States) are limited in this making. Thirdly, the states are required to cooperate with non – state stakeholders. The diplomacy had to look back on the relation between the states and to direct its attention to transnational relations, which, at one moment, would require a military power for implementing tasks such as the conflict against non – state terroristic groups.

American national security strategy was created from the Goldwater – Nichols Act, which required that every administration had to announce their own key priorities to both Congress and public. The strategy reflects the influence of internal and external pressure on the administration, i.e. the opposites of elegant ideas of high strategy and daily requests of the policy. The process of developing a national security strategy is a dynamic one. Most strategies emerged from the response to real life events and the request of administration of the president of the state. The document is not formed in the vacuum, but the ideas are derived not only from academic circles but also wider political communities. The strategy is a historic document created in the certain time and for the certain country, which does not provide the complete management of the newly – emerged problems. Considering the strategy as a document of a compromise having the general attitudes, its influence in daily political discussions is not of great importance. Better integration and cooperation between the existing government institutions is more important for the coherence of the strategy than for forming new institutions or coordinating bodies. American strategy has not noticeably changed after 1954. The most important period was the change of attitude towards China in 1972, which caused the triangular diplomacy to become the potential strategy for restricting the influence of the Soviet Union, and later, it even overgrew into the temporary alliance during the rule of Carter's administration, which was the first to apply the military planning and undertake the military actions in the Persian bay and also the promotion of human rights, outside the borders of the United States. In the post – Cold War world, multilateralism was ceding a place to unilateralism. There were certain disagreements between the presidents of different administrations about the strategy, but disagreements about the strategy goals were few. The Bush's doctrine of preemption is in the same level, by its importance, as the Clinton's aggressiveness in the promotion of human rights. What the United States needs today is more passive, anti – interventionist strategy with more rhetorical softness.

Bush's "revolution" is expressed through the Strategy from 2002, and it was based on two main pillars:

The freedom of action (which provides power to America) to respond to threats, regardless of the opinion of other states and *the way of using power*, for changing the world. Based on these characteristics, "revolution" is translated into the domain of policy of unilateralism, preemption and direction to the change of the opposite regimes. Analyzing the content of both strategies, it is noticed that the Strategy from 2006 recognized that the world was shaped by the process of globalization, which was not mentioned in the Strategy from 2002. Also, the strategy of Bush's second administration recognizes the importance of influence of external threats and

the way of responding to those threats, which is based on cooperation with others and on building of institutions. That is the statement which cannot be found in the previous Strategy.

Bush's strategy being determined that the ultimate goal for the USA is the preservation of peace and spreading of democracy, completely follows the implementation of the idea, which was promoted at the beginning of XX century by American president Woodrow Wilson, who ruled back then. The accent in Bush's strategy, unlike Clinton's, is placed on the protection and defense of peace. It reflects the awareness that the strategy was created at the time when American safety was directly and seriously threatened and when the satisfaction with the outcome of fifty – year conflict with USSR ceded the place to the feeling of concern and uncertainty before new challenges. That is why the pillars of Bush's CHN8 are defense of peace by deterrence and preventive operations against the terroristic violence. The accent is on cherishing the atmosphere of good relations between the great powers and global spreading of freedom and prosperity, because “not one nation can build safe and better world alone.”²

When we talk about the preemption, we cannot tell that it represents innovation compared to the previous administration. Clinton's administration led to the preemptive military attacks on the factory of chemical products in Al Shifa, so that they could stop the delivery of products to terrorists. Preemption was considered to be the means for the implementation of goals in previous strategies, while in the Strategy from 2002 it changed its essence, reformulating it to a doctrine. As an argument for this change, it was stated that new threats appeared for which the doctrines of deterrence and containment were not successful, and because of that, it was necessary to use the preemption as a fundamental doctrine in response to threats. The doctrine of preemption in the Strategy from 2006 is rhetorically mitigated, with the need of using diplomatic terminology, cooperation with allies and support of international institutions. However, if the diplomacy does not have the solution to the problem, the military option will have to be applied. This attitude represents the message to Iran that the applied diplomacy means, in the extreme case, the usage of preemptive attacks. However, sending the aggressive messages does not represent the adequate signal. The regime of Iran can understand this act of Bush administration as an intention of changing the regime violently, even in the situation when diplomacy is used in order to overcome the misunderstanding.

American policy creators experience terrorism as a phenomenon essentially dependent on the state, which has an impact on its expansion. Numerous analysts of modern American external policy think that the connection between terrorist organizations and state sponsors represents the basic idea on which the counter-terrorism strategy should be based on. The development of terrorism as a transboundary, non – state, web – connected phenomena, is opposite to the realistic analysis of international relations, according to which the most serious threats to international security originate rather from the state, and to a lesser degree from non – state stakeholders. This attitude drove America to undertake steps for its own protection, not waiting for others, but working alone, unilaterally. However, “war against terror“ cannot be just a war with the help of armed forces, but it needs to be understood as a social and political process. It is necessary to transform the notion of security, putting the emphasis on the world's social development and prosperity.

3. APPLICABILITY OF THE NATIONAL SECURITY STRATEGY OF THE UNITED STATES OF AMERICA TO SMALL COUNTRIES AND THE REPUBLIC OF SERBIA

In order to perceive possible implications of the national security strategies of the United States of America from 2002 and 2006, which can refer to small countries where Serbia belongs too, we will point out some small countries.

² The National Security Strategy of the USA, <http://www.whitehouse.gov/nsc/nss.polic>

There are lots of definitions of the term of a small country, and in this work we will use a definition of the United Nations. The Forum of small states”³ FOSS in the United Nations defines a small country as a ”country in which the population is less than 10 million.”⁴

Currently, this group contains 100 states out of 192 states which are the members of the United Nations. The World Bank says that small countries are those that have up to a million and a half of population and according to them, this category contains 45 countries.⁵

The ex ambassador in the government of Indira Gandhi, Kishan Rana, mentions the relatively new term of a micro – state, which refers to the states with a number of population that is less than a half of a million. However, he thinks that the number of population is not a sufficient criterion so that the state could be marked as a small one, but there are also the size of the territory, natural resources that are available to the state, criteria of the vulnerability of the state, or so to say its sensitivity to threats.⁶ It should be noted that ”most of the small states are really sensitive in the case of a global economy, including the global trade arrangements, investment policy and the events on the monetary plan.”⁷

What is really interesting is that Rana draws attention to the following: “so that you could consider a state to be small, it is necessary that it considers itself to be small, too.”⁸ This last attitude will be always considered, because it has to do with something that is really important when we talk about international relations, and that is the way states and individuals who are leading them, are observing their own state, other states and their leaders.

Considering that today, as always in the past, there is a huge disparity in the power between large and small states, the main goal of small states is their survival, or so to say an urge not to be united, conquered or jeopardized in any other way by larger states. In that case, foreign policy of small countries has to be more active and thoughtful, and based on the exact estimation of current movements in the international relations and recognizing trends that are waiting for the world in the future. From all this, it is clear that small states need to adapt to the conditions in the international relations or it will be very hard for them to survive. Strategic documents such as national security strategies of the most powerful country in the world, surely are the subject of attention of small states. The reasons are multiple. To make it clearer, it is impossible to make plans without any insight into plans of the large ones, it is impossible to lead their own foreign policy without finding space for freedom in mistakes or omissions of the large ones.

We will start with those parts of the national security strategy of the United States which can be applied to small states and the Republic of Serbia. As for the strategy from 2002, the parts which can be applied are as follows: Chapter 2 which talks generally about things related to human dignity (and here we have an example of American Multinational Democratic Society

³ The forum of small states was created in the United Nations in New York. Singapore, which was the initiator of the foundation, is the moderator country of the organization, and the meetings are held several times a year. See more about it at the following internet address: Colin Keatin, the United Nation Security Council: Options for Small States, Reykjavik, Iceland 16 June 2008, 20/02/10, <http://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Media%20Small%20States%20Reykjavik.pdf>

⁴ See: Kishan S. Rana, The Dipomacy of Smal States, speech at the conference dedicated to the diplomacy of small states, International Conference “Diplomacy Of Smal States” 8 – 9 february 2007, source: Internet, 10/02/10, <http://textus.diplomacy.edu/thina/TxFsetW.asp?tURL=http://textus.diplomacy.edu/thina/txgetxdoc.asp?IDconv=3226>

⁵ Same

⁶ Same

⁷ Same

⁸ See: Kishan S. Rana, The Diplomacy of Small States, speech on the conference dedicated to diplomacy of small countries, International Conference “Diplomacy Of Small States” 8 – 9 february 2007, source: Internet, 10/02/10, <http://textus.diplomacy.edu/thina/TxFsetW.asp?tURL=http://textus.diplomacy.edu/thina/txgetxdoc.asp?IDconv=3226>

that represents a proof that people of different cultures and heritage can live together in peace and progress); then we have the Chapter 4 which refers to the cooperation with others; the Chapter that talks about the cooperation with other centers of power (Chapter 8). Also, there is Chapter 9 which refers to the changes in institutions and the national security system in order to face the challenges in the 21st century.⁹

In the Strategy from 2006, which, as we have seen, has two chapters more in comparison to the previous one, and which is, as we have emphasized, written with a calmer tone in comparison to the previous one, and we can tell that all the chapters that we have brought up from the first strategy, also can be used from this strategy.¹⁰

Here, we can take into consideration the Chapter which cannot be found in the Strategy from 2002, and it is about the challenges that are brought by the process of globalization (Chapter 10). Namely, in this Chapter the threats to national security brought by the globalization process are clearly listed. For example, it stands out in this Strategy that these are: 1) pandemics that represent the threat to the public health, because the borders of national states do not represent an obstacle to them; 2) drug trafficking, human trafficking, and trafficking of weapons of mass destruction or other advanced technologies; 3) destruction of the environment done by people or cataclysmic disasters such as floods, hurricanes, earthquakes and tsunamis.¹¹

Therefore, when it comes to values and goals, it can be said that the most of the things that are written in these strategies can be applied to both foreign and security policy of small states and the Republic of Serbia. The part that is questionable applies to the instruments i.e. the resources that the state uses to achieve its goals in the strategy (because as we have already said, every strategy, even the strategy of national security sees the relation between the goals and the available resources as essential). Diplomacy is the main instrument of small states for achieving the foreign policy. It "gives them the voice in the global arena in order to ensure that the common goal, themes and problems can be solved in the right way for the small, developed and those that are still developing".¹² This is because most of small states and the Republic of Serbia as well, do not possess military capacities of great powers, and especially not those that the United States of America has. Chapter 5, which is also the most questionable in both of the strategies, because, as we have seen, it blurs the difference between the preemptive and preventive war, tells us about the employment of armed forces in order to stop another attack on the territory of America. In that case, it is impossible for a small state to talk about this in that way. The instruments that are available to small states are, after all, connected to diplomacy and negotiation and economical instruments. Of course that the most of small states possess armed forces, but they do not have the global reach as it is the case with the armed forces of the larger states, so the use of force as a foreign policy resource is limited, after all, in the reach. Alan Henrikson says that the main characteristic of small states is that they cannot defend themselves by acting alone. For that reason, he thinks that small states need allies or they need to be allies. "By entering the coalitions, they can hope that they will contribute to counterweights to threatening, great power or that they will ensure their safety, classifying themselves together with the threatening, great power. Balancing and bandwagoning – two basic alternative strategies are finding their place in the modern political science."¹³

⁹ See: *The National Security Strategy of the United States of America*, White House, Washington, DC, 2002

¹⁰ *The National Security Strategy of the United States of America*, White House, Washington, DC, March 17. 2006

¹¹ Same, p. 47.

¹² See: prelude for the conference about diplomacy of small states, International Conference "Diplomacy Of Small States" 8-9 february 2007. Source: Internet, 10/02/10,

<http://textus.diplomacy.edu/thina/TxFsetW.asp?tURL=http://textus.diplomacy.edu/thina/txgetxdoc.asp?IDconv=3244> , 21.02.2017

¹³ Henrikson, Alan K., *Diplomacy and Small States In Today's World*, speech at the conference dedicated to diplomacy of small states, International Conference "Diplomacy Of Small States" 8-9 february 2007, source: Internet, 10/02/10, <http://textus.diplomacy.edu/thina/TxFsetW.asp?tURL=http://textus.diplomacy.edu/thina/txgetxdoc.asp?IDconv=3224> , 21.02.2017

When it comes to the Republic of Serbia and its strategies of national security, Milan Karagaca asks for rationality in selecting the instrument in his text "Strategy of national safety – the compromise between real and possible." He says: "Serbia needs to choose the most rational access and that is a clear commitment for the concept of mutual security and active participation in all regional, European and Euro – Atlantic security associations and initiatives through the active contribution to the global security, affirming itself in that way as an important factor of security and stability in the region, even though it is still part of those countries that import safety more than they export it."¹⁴

It is clear that small states are more sensitive to regional and global conflicts and instability and that is why small states are engines of multilateralism or so to say natural advocates of international cooperation.¹⁵

As for Serbia, which received its first strategy of national security in the October of 2009, when the document was adopted on the session in the National Assembly of the Republic of Serbia, surely the writers of our strategy had in mind the American national security strategies when they were writing our document. Especially the part that refers to the surroundings (both of foreign and home policy), and transnational challenges, risk and threats, and of course the part which refers to institutions of security.

4. THE CONSEQUENCES OF THE USA NATIONAL SECURITY STRATEGIES FROM 2002 AND 2006 ON SOCIAL AND ECONOMIC DEVELOPMENT OF AP KOSOVO AND METOHILJA

Kosovo and Metohija have the area of 10,877 square kilometers and it comprises two geographic regions: Kosovo and Metohija. This division is reflected in the name itself and it was of a great significance in history. After the Balkan wars, Kosovo became a part of Serbia, while most of the region of Metohija belonged to Montenegro. Before 1945, Kosovo and Metohija had neither the administrative nor state unity. A large number of places and sites in this region have Serbian lexical origin, which indicates to the fact that, in the past, this place was mostly populated by Serbian population. In the Middle Ages, Kosovo was the economic, administrative and cultural center of Serbia.

The major migration of the Serbian population from Kosovo and Metohija happened during the war between the Ottoman Empire and Habsburg Monarchy (1683 – 1699), when after the rebellion, Serbia was on the side of Habsburg monarchy, which failed in its campaign towards the south. At that time, more than 50,000 Serbs (the data vary between 40,000 and 10,000) under the leadership of Arsenije Carnojevic the Third, left Kosovo and Metohija, and most of them moved to the territory of Srem, and less of them to the territory of Pomoravlje. During the First World War, due to the democratic emptiness of the Central Serbia, there was another great migration of Serbs from Kosovo of Metohija to the Central Serbia. Democratic movements of the Serbs enabled the Albanian population from mountainous areas of Kosovo and Metohija and northern Albania to settle the emptiness which occurred after the Serbs had left, which caused the Serbian population to become the national minority on the territory of Kosovo and Metohija.

¹⁴ Milan Karagaca, „Strategy of national security – compromise between real and possible“, *International Policy*, year LX, no. 1136, october–december 2009, page 9

¹⁵ See: prelude for the conference about diplomacy of small states, International Conference "Diplomacy Of Small States" 8-9 february 2007. Source: Internet, 10/02/10, <http://textus.diplomacy.edu/thina/TxFsetW.asp?tURL=http://textus.diplomacy.edu/thina/txgetxdoc.asp?IDconv=3244> , 22.03.2017

After 1912, when the coalition of Balkan states ended the Turkish dominance in the Balkans, the Albanian majority on Kosovo and Metohija had already been established.¹⁶

Upon the arrival on Kosovo and Metohija, international forces have tried to find the solution, not taking into consideration historical facts, interests of non – Albanian population and the resolution of Security Council of UN 1244 to a satisfactory extent. In 2003, international forces began solving the Kosovo issue through the model of "Standards before status", which failed after the destructive demonstrations of Albanians on the 17th of March, 2004. Considering the possible outcome of Kosovo issue was reflected in the process of making the Plan by Martti Ahtisaari¹⁷, which should have replaced the resolution SB UN 1244.

The constant relevance of the Kosovo issue imposed a need of including a large number of politicians in order to find the solution. Some politicians find the solution in the territorial division of Kosovo and Metohija or in the fully secession from the Republic of Serbia, where Serbia would give an extorted agreement. Unfortunately, the mentioned extreme solutions are still topical. Accepting the solution that is based on division or secession, would represent a "suicidal" step of the Serbian political elite and would lead to problems in the south of Central Serbia and in other, neighboring countries.

However, in order to perceive the consequences of the USA national security strategies from the previously mentioned periods on the social and economic development of Kosovo and Metohija, and especially on the non – Albanian people, we will indicate directly and indirectly to activities of the international organizations that are situated in Kosovo and Metohija (UMNIK, NATO, EU).

According to the Resolution 1244, the economy of Kosovo and Metohija was under the jurisdiction of UMNIK when the chief of that body was Berner Kushner, who gave right to the Kosovar Albanians to exploit it. After that, the Kosovo Trust Agency was formed, with an aim to accomplish the privatization. The Agency carries out process of privatization with the spin – off methods and with the liquidation.

The income generated from selling the companies is sent to the special account, and the Kosovo Trust Agency operates with money. The biggest part, about 80% of the resources generated by sales, is bound for settlement of creditors and owners. The rest 20% of the resources generated with the shares of a new enterprise, is appropriated for the employers in the socially-owned companies who have rights.¹⁸

Forming of the Kosovo Trust Agency is actually a legal distancing of UMNIK from the privatization in the southern Serbian Province. That enabled to UMNIK a comfortable, political position. Almost 60% of all the mineral resources that the Republic of Serbia has, is exactly on Kosovo and Metohija and the total value is estimated to be 1,000 billion dollars minimum.¹⁹

A special issue is the right to participate in the distribution of privatization income of workers. Even though the introduction of this right into the self – made "Kosovo law – system" represented the positive development in the protection of human rights, the practice has shown its inadequacy. The UMNIK regulation number 2003/13 on the change of rights for using the socially-owned land, which regulates the right to compensation, i.e. the participation in allocating the privatization income, specifies that only the workers who are employed in the

¹⁶ Todor Mirkovic "Kosovo and Metohija – nine centuries later", Military work – summer 2014, page 190 and 191, see detailed on http://www.odbrana.mod.gov.rs/odbrana-stari/vojni_casopisi/arhiva/VD_2014-let0/66-2014-2-12-Mirkovic.pdf

¹⁷ Ahtisaari's plan is a compromise which offers a possible independence to Albania, rights to Serbs, security and privileged relations with Serbia, and to Serbia a chance that once and for all finishes with the past and achieve its European future – which makes it unacceptable for Serbian minority in Kosovo and Metohija and the Republic of Serbia

¹⁸ Arsic, Lj. Djokic, N. (2004). Institutional presupposition and realization of process of its transformation on Kosovo and Metohija, Economic views, 1 – 2, page 211 – 218

¹⁹Year 2008, Belgrade's newspaper Economist, published that with the separation of Kosovo and Metohija, Serbia loses at least 85 billion Euros, that is how much the lignite reserves are worth, but also 50 million tons of zinc and lead, which costs around 8 billion dollars

company at the moment of its privatization are entitled to it, i.e. the people who are on the list of employees at the moment of selling that company and who have been at least three years on the payroll of the company (except for the ex – workers, pensioners, the heirs of the deceased workers). The experts of the World Bank have estimated that the mineral resources in the south of Serbia worth much less, i.e. 13.5 billion dollars, but that those resources could be exploited for 200 years, and there comes a question if the estimated value matches the time of exploitation. The results of the multi-annual research that was conducted by the Geological Institute of Serbia until 2000, and which refers to the north and east part of Kosovo and Metohija, also indicates the important and priceless value which is surely of a great importance to the West, and especially USA. These are the reserves of about 34 million of tons of lead, zinc and silver ore from which about a 1.5 million of tons of lead, 1.5 million tons of zinc and 3,000 tons of silver can be obtained.²⁰

According to the research, lignite is concentrated into three basins (Kosovo's, Drenica's and Metohija's), and until 2000 it was established that only in the Kosovo's basin, within the coal mine Belacavac and Dobro village, there were 3.5 million tons of reserves of lignite of different quality, while the potentials are "estimated to be more than 7 billion tons." As for the basin of Drenica, there are no active mines in it, but the estimation of Geological Institute of Serbia is that two sites (Srbica field and Glogovac field) contain reserves of 135 million tons. There are established reserves for the coal basin of Metohija of about 1.1 billion tons of lignite. According to the previously mentioned researches, it can be ascertained that the interest of interested countries really exist, so the attitude of the Western countries, first of all the USA, Great Britain, IMF, as well as the World Bank, EBRD was that the ownership transformation i.e. the sale and privatization of socially owned and public companies in Kosovo and Metohija was to begin and end almost immediately in order to develop the economy of Kosovo and Metohija, regardless of unsolved ownership relations.

One of the examples of selling the property being in the ownership of Serbia in the region of Kosovo and Metohija, i.e. the sale of socially-owned companies which is implemented through the Kosovo Agency for Privatization without respecting the rights of the owners, is the sale of "Feronikl" where 20% is in the ownership of electric power industry of Serbia, 31% is in the ownership of Serbia Development Fund and 49% in the ownership of the factory itself. "Feronikl" was sold in 2007 for 30.5 million Euros to English company IMR Alferon.

The production in Kosovo is very low so the economic life is based on the trade and import of goods. In Kosovo, there is no important direct foreign or public investing. Kosovo has a weak financial sector, expensive credits and a low saving rate, and it is economically dependent on the international help. What is important is the influx from the donations of Kosovar Albanians from foreign countries. It is estimated that the influx is moving from 370 million Euros a year, according to IMF, to 187 million Euros.²¹ Kosovo is poor and unstable. Over 50% of population lives in the misery, and 12% of them are on the verge of existential minimum.²²

5. CONCLUSION

There is no doubt that the administration of the president Obama and the new democratic power of Serbia have inherited a difficult situation. In this late phase of the Kosovo and Metohija issue, all possible outcomes are troublesome both for advocates and opponents of the

²⁰ Geological institute of Serbia, site: <http://www.gzs.gov.rs/>

²¹ *Del Re*, 2007: 100, 101

²² *Cani*, 2004; *Farnam*, 2003

independence. That is exactly why in search of a compromise solution, it is necessary to turn back to the most basic questions of national interests and foreign policy goals.

It is unknown at this moment how the political situation in Kosovo and Metohija will develop, after the unilateral declaration of independence was proclaimed by the provisional institutions of the government. Large and influential countries such as Russia, China, India and some countries that are members of the UN, are not ready to accept a new state. On the other hand, the largest part of western countries, but also some other, smaller countries have accepted "newly – created situation" (in total 38 countries accepted "independent Kosovo" at the end of April). Considering the political situation in Serbia it can be said that none of the present important parties will ever agree with the secession of the province, i.e. 15% of the territory of the country.

Altogether, the process of privatization in Kosovo and Metohija has been chaotic, without the control of legal owners and without participation of non – Albanian stakeholders in that process. If there are some effects of privatization after all, then it can be said that they are, surely, the worst in the east Europe. By having a look at the life of Kosovo, it can be seen that people live in poverty and misery, practically they are financed by the budget of UN (MIK), EU or from the resources of the Republic of Serbia, which is, with the economic activities (increased after 17th of February this year), present in those parts of Kosovo where Serbs and other non – Albanians (Roma, Gorani, Bosnians) live. The resources of privatization are still not invested into the development of Kosovo's economy (80% from the privatization is still blocked on the account of KTA).

As the time has passed, the reality has been changing in favor of strengthening the institutions of Kosovo, and international institutions in Kosovo have supported strengthening of these institutions and weakening the economic, financial, human and other capacities of the Serbian community and Serbia itself to maintain "parallel institutions" and to secure sustainable economic and social development of Serbs in Kosovo. However, the commitment of Serbia to find its future in the EU was the key factor to search the solution in making the relations between Serbia and Kosovo normal.

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LEGAL – ECONOMIC ASPECTS OF CLARIFYING THE FATE OF MISSING PERSONS: PROJECT RUDNICA – RASKA

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ABSTRACT

The Commission on Missing Persons of the Government of the Republic of Serbia was formed by the Decision of the Government of the Republic of Serbia on 8th of June 2006, with the mandate enabling it to deal with resolving the issue of persons missing during the armed conflicts on the territory of FRY and AP Kosovo and Metohija. The Commission on Missing Persons monitors, studies and prepares proposals to address the question of missing persons, collects information and provides notifications of persons missing during the armed conflicts on the territory of FRY and AP Kosovo and Metohija, fulfils the commitments deriving from international agreements and agreements related to issue of missing persons, coordinates the work of relevant bodies and organizations in the process of searching for missing persons, exhumation and identification, cooperates with the competent authorities, families and associations of missing persons to address the status issue of missing persons and humanitarian questions of their families. The Commission has president and members, who are representatives of the relevant ministries. Section for missing persons in Commissariat for refugees and migration performs professional and administrative technical operations, including coordination of activities in the fieldwork, for the purposes of the Commission.

Keywords: *Commission on Missing Persons, Government of the Republic of Serbia*

1. INTRODUCTION

The issue of missing persons is one of the most complex open questions in bilateral relations of countries in the region, therefore it was subject of the meeting of country officials on high level in the beginning of 2016, especially considering its humanitarian significance, as well as influence on some important political questions such as return of refugees, strengthening of good relations with neighboring countries and trust between ethnic and religious communities.

For further progress of this process it is necessary to intensify and coordinate activities of all competent authorities and institutions on resolving this matter, which would provide systematically, continuous progress in this area and result in higher number of resolved cases of the missing persons from lists of all parties in the process. The Commission on Missing Persons implemented a number of measures and activities at different levels in order to expedite solving the cases of missing persons. These activities involved, *inter alia*, field checks, surveys, exhumations, re-exhumations, re-associations, identifications and handover of mortal remains. Data of the International Committee of the Red Cross (ICRC), 10,653 persons in the region are still unaccounted for, out of which number 1,660 of them in the Autonomous Province of Kosovo and Metohija, 2,113 in the Republic of Croatia, and 6,874 in Bosnia and Herzegovina.

2. INTERNATIONAL AGREEMENTS AND DOCUMENTS ON COOPERATION IN THE SEARCH FOR MISSING PERSONS ARE:

- Agreement on Cooperation of the Federal Republic of Yugoslavia and the Republic of Croatia in the search for missing persons (signed on 17 November 1995 in Dayton) and the Protocol on cooperation between the Commission of the Federal Government of the Federal Republic of Yugoslavia for Humanitarian Affairs and Missing Persons and the Commission on Detained and Missing Persons of the Government of R. Croatia (signed on 17 April 1996 in Zagreb), closely defining certain responsibilities and ways of working with the state authorities in searching for people who disappeared during the armed conflict in the former Yugoslavia from 1991 to 1995,
- Joint document of UNMIK and the Federal Republic of Yugoslavia signed in November 2001 in Belgrade; Protocol on joint verification teams on hidden prisons; The protocol on the exchange of forensic experts and expertise; Protocol on cross-border repatriation of identified remains (signed on 11 February 2002 in Belgrade)
- General framework and working rules of the Working Group on persons who went missing in relation to events in Kosovo within the framework of the dialogue Belgrade - Pristina; these documents are closely regulate cooperation with UNMIK in resolving the problem of missing persons in Kosovo and Metohija,
- Agreement on cooperation in the search for missing persons between the International Commission on Missing Persons (ICMP) and the Commission of the Federal Government of the Federal Republic of Yugoslavia for humanitarian issues and missing persons (signed in Belgrade on 05 April 2003), which regulates cooperation in the process of exhumation and identification of human remains using DNA analysis,
- Agreement between the Federal Republic of Yugoslavia and the ICRC (signed on 14 June 1994 in Belgrade)
- Protocol on Cooperation in the search for missing persons between the Commission on Missing Persons of the Government of the Republic of Serbia and the Commission on Missing Persons of the Government of Montenegro (signed on 25 April 2012 in Belgrade)
- Agreement on the continued cooperation in the process of exhumation and identification of missing persons between the Commission on Missing Persons of the Government of the Republic of Serbia and ICMP June 2014 and
- Protocol on Cooperation in the search for missing persons between the Government of the Republic of Serbia and the Council of Ministers of Bosnia and Herzegovina (signed on 5 November 2015 in Sarajevo).
- Law on migration management that regulates question of content and manner of keeping unique records of missing persons in armed conflicts and in relation to armed conflicts in the former Yugoslavia from 1991 to 1995 and Kosovo and Metohija from 1998 to 2000, and

records on exhumed , identified and unidentified human remains from individual and mass graves,

- Declaration on the role of government in addressing the issue of missing persons was signed 29th of August 2014 in Mostar, which aims at encouraging the process of finding missing persons and defines the responsibilities and role of the states in resolving the issue. The Declaration was signed by Serbian President Tomislav Nikolić, President of Croatia Ivo Josipović, President of Montenegro Filip Vujanović and Chairman of the Presidencies, Bakir Izetbegović and

- Declaration on improving relations and resolving open issues between the missing persons of the Republic of Serbia and the Republic of Croatia was signed on 20 Jun 2016 in Subotica. Declaration was signed by Serbian Premier Aleksandar Vučić and President of Croatia Kolinda Grabar Kitarović.

3. THE MAIN OBJECTIVES OF PROJECT

During the last almost 19 years, families of the kidnapped and missing persons have faced and fought their primary and principal problem - the loss of their closest family members. The disappearance of a family member reflects on multiple levels, individual, family, community and the level of the whole society. All the energy of families of kidnapped and missing persons is directed towards uncovering the truth and clarifying the fate of their children, parents, brothers, sisters, spouses.

Painful uncertainty caused by lack of information about disappearance and its circumstances, absence of any information about fate of a missing person, as well nonexistence of cemetery marks to remind of them, stops all the liaisons between the families of the missing ones and communities to which they belong. On the other side, both families and community are disabled from rituals of giving homage to the dead, which helps an individual cure his/her wounds and in that way easier overcome the pain of the past and lets them turn to the future. Many of the individuals will live for years in the state of uncertainty and through psychological suffering, waiting for their loved ones to return or to be returned. They often search for bodies or human remains themselves when there is no information about it or about fate of their family members. Persistence in their search shows a strong need for saying farewell to them in a dignified manner and for a place where they can visit any time their family members while they rest in peace. Therefore, funerals are of great importance for society and its individuals.

The resolution of the issue of missing persons, with humanitarian aspect as priority, had a high degree of politicization from the very beginning, the consequence of which was slowing down of the process aimed at elucidation of the fate of the missing. Priority was assigned to actions on the ethnic principle instead of the humanitarian one, which would enable this problem to be solved at the approximately same volume and dynamics around the whole region. There is an insufficient degree of cooperation and openness in exchanging information in the process, as well as the lack of cooperation for the necessary planning and synchronization of activities, and all the more precise asserting of dynamics during the process of investigation activities, exhumations and identification in the region.

The Government of the Republic of Serbia has invested significant efforts to expedite this process and replied to all requests of Pristina delegation via the Working Group for Missing Persons within the framework of Belgrade-Pristina dialogue. All available information, concerning almost 3000 killed persons of Albanian ethnicity, which relate to the place of discovery and place of burial with all necessary details needed for the resolution of their fate, was delivered to Pristina delegation. Republic of Serbia also investigated all the allegations and replied to all the requests of the Pristina delegation including the location Rudnica, Raska. The lack of information on potential gravesites and difficulties in identifying the already exhumed human remains continue to be the key obstacles to solving the remaining cases of missing

persons. To these problems, it can be added the limited national capacity, as well as the budgetary constraints which in the present economic crisis affect the process of recovery and identification of missing persons. Belgrade and Pristina held two meetings to address these issues in the framework of the International Committee of the Red Cross (ICRC)-chaired Working Group on Missing Persons.

A failure to properly address the existence of mass graves and large numbers of persons missing from the Kosovo conflict could additionally pose a fundamental problem for further peace building and reconciliation efforts in the region. Besides, it is the responsibility and obligation of the Government towards the families of missing persons who are entitled to know the truth about the fate of their loved ones. Also, the Government is obligated to clarify the fate and whereabouts of missing persons under human rights and international humanitarian law. This obligation derives, *inter alia*, from the 1949 Geneva Conventions, the 2006 International Convention for the Protection of All Persons from Enforced Disappearance and Articles 2 and 3 of the European Convention on Human Rights (ETS No. 5).

3.1 Special objectives are: exhumation, autopsy, identification and handover of human remains. The activities are:

1. Fine cleaning and glazing of the surface, with the aim to identifying the edges of the grave-pit
2. Placing a square net, verifying the GPS location, and
3. Marking the surface under examination by special unique numbers
4. Photographing, technical and level recording of every phase of the digging
5. Conducting archeological stratigraphic excavation, aimed at verification of the contexts of formation of mass graves, and physically collecting the human remains and all relevant artifacts (clothing, footwear, personal effects and documents, possible munitions and other important objects), as well as conducting horizontal and vertical stratigraphy
6. Manual cleaning of human remains, documenting and systematic excavation of the bones from the ground
7. Storing the skeletal remains and all artefacts in specialized bags marked according to the unique numbering system created for the purpose
8. Transporting the remains to the place where the forensic team performs anthropological analysis: certifies the individual biological characteristics of the persons whose human remains are under analysis, finally certifies the cause of death and take bone samples for the DNA analysis
9. Once the forensic process is completed in the field laboratory, the bones are stored in special refrigerators (refrigerator trucks) where they remain until the final identification
10. Once it is verified to whom the human remains belong, the handover begins with the aim of the final dignified burial
11. Each part of the forensic process is recorded and the responsible participants in the forensic process take part in the preparation of the final report.

3.2 The final report contains:

- Archeological report about the character, size, way of formation of the grave, about horizontal and vertical stratigraphy, as well as the description of stratigraphic units, all human remains and all relevant artefacts, and finally the conclusion about whether it is a primary or a secondary mass grave;
- Anthropological characteristics of the persons (assessment of sex, age, body height, dental status, morphological characteristics and verification of ante-mortem injuries which can help in identification), cause of death if possible to verify;

- Photos and description of personal effects and clothing connected with individual human remains;
- Report on DNA analyses.

3.3 Forensic team:

1. Archeologists lead and perform excavations, exhume human remains and artefacts, and reconstruct the way bodies were put into the ground and buried, and prepare the exhumation report
2. Anthropologists are responsible for the anthropological analysis of the skeleton remains and determine the minimum number of human remains in the mass grave, sex, age at the moment of death, as well as any individual characteristics of the skeleton
3. Forensic experts verify damages which can be connected with the possible cause of death and take samples for DNA
4. Assistants perform manual excavations and provide assistance to the team of anthropologists
5. Radiologist, if necessary, performs radiological scanning of the skeleton and teeth
6. Chemist, if necessary, performs chemical analysis of soil samples
7. Forensic technician is responsible for description, classification and storing of the personal effects and clothing found, as well as for the general forensic photographing and video recording in the project
8. Forensic dentist - compared ante mortem and post mortem dental status and prepared report
9. Photographer is responsible for photographing the activities of all three phases of the project

3.4 Discussion

Chronology of the activities that have taken place prior to finding the human remains in Raska

1. The Central Investigation Unit of UNMIK initiated the reconnaissance of the potential mass grave in Rudnica, Raska, which was done on 02.07.2004. On that occasion, UNMIK representatives conducted a detailed examination of the location, photographed the place and identified GPS coordinates. It was agreed that additional consultation with the informant would take place, and the arrival of the informant to the location would be secured. After that no further initiative followed until the request of 28.02.2006.
2. 05.07.2006 - a joint visit to the location Rudnica, Raska, was agreed at the Working Group and conducted on 07.09.2006. Following the visit, Belgrade delegation took the obligation to make sure that the Court issues a court order for exhumation and expedites the process, and the Pristina delegation to provide additional information.
3. 06.02.2007 - Belgrade delegation put forward a request concerning the document by which the witness who provided the information about the existence of the grave verifies that the place that was the subject of the bilateral recce mission is actually the place where the alleged mass grave is located.
4. 22.05.2007 – preparatory meeting took place and digging of the location during the period from 05.06.2007 to 09.06.2007 was agreed upon.
5. From 05 to 09.06.2007 -the check-up of the location was conducted with the Pristina delegation representatives, forensic experts, anthropologist and OMPF investigators, representatives of War Crimes Unit of UNMIK present...Location was negative.
6. 22-24.09.2010 –initiated by the Belgrade Supreme Court, the War Crimes Unit issued an order on the basis of which the Faculty of Civil Engineering in Belgrade conducted the geotechnical survey of the location in search of information about the existence of

potential mass graves near the office building of the Company Kosmet Put in Rudnica, Raska.

7. 10-14.12.2013 -assessment of the area in front of the office building continued.

The continued engagement of the Republic of Serbia, jointly with the stakeholders involved in the ICRC chaired Working Group, has resulted in discovery of human remains on 13.12.2013. The Serbian authorities are committed to resume and complete the works pending to be done in the Rudnica/Raska gravesite in a swift, efficient, professional and transparent manner in order to provide answers to the families of the Missing.

After the discovery of human remains, the location has been secured and protected from the influence of bad weather. The continuation of activities has been postponed until the beginning of the spring when weather conditions permit.

On 22.4.2014., commission of experts came on the field to the location Rudnica-Raska, on the April 23th 2014. and began archeo-forensic research, exhumation, anthropological and forensic analysis of skeletal remains, analysis of clothes and artifacts, creating documentation, taking DNA samples, and packaging and storage of skeletal remains, clothes and found artifacts. After 55 days of field research, the Commission analyzed the entire documentation made in the field, on the April 25th 2014. In addition to the Expert Commission composed of anthropologists, in the work were involved and two forensic technicians from the Police Department in Raska, who have worked field photography and laboratory forensic analysis (identification and description of clothing and artifacts, study photos and packaging of all items). Present members of the forensic team of EULEX and Pristina delegations have provided support in the archaeological part of the job and making photo-documentation. In the anthropological analysis of skeletal remains, occasional assistance was provided by representatives of the International Red Cross. Technical organization of the site was within the jurisdiction of the Commission on Missing Persons of the Republic of Serbia and representatives of the Ministry of Internal Affairs of the Republic of Serbia – Directorate of criminal police, Department of war crimes investigation

4. ARCHEO FORENSIC INVESTIGATIONS ON SITE RUDNICA

Due to the nature and complexity of the site, was strictly applied archaeological stratigraphic excavation method, which involved the detection, identification, carefully and fully documenting and individual excavation of all stratigraphic units, layers, interlayers, deposits, section and fundamentals, as well as human remains, clothing and artifacts. This required and constant control and completion of a total field of documentation: technical drawings and plans, diaries of excavations, diaries of measurements of EDM total station, a form of archaeological context, the form of deposits, form bodies and body parts, form field findings, a form of digital photos and video clips, and form the so-called chain of responsibility, i.e. constant and complete control of movement of the findings -particularly human remains- from digging, lifting, temporary shelter in cold storage, transport to the laboratory analysis by anthropologists, pathologists and forensic technicians and ultimately found in refrigerators. For geodetic surveys was used EDM total station, by which were systematically measured 3D positions of all findings and context.

All the time on the field was used a combined method of mechanical excavation and manual excavation: Removal of recent surface layers of sediment, up to the grave; removal of massive residues of concrete and stone foundations of buildings and ancillary structures (for example. concrete-stone "channel" for heavy machinery with solid metal casing); rapid excavation of test-trenches in the area of the tomb - a total of 9 done such a test trenches; test excavation of a wide area around the tomb, to the level of the lake mud and water (relative depth of 4-5 m, approx. 500 m²)

4.1 Description of research activities

History of the site is complex: originally there existed quarry, which worked as an open pit mine, on which until the late 1980s was exploited this quality stone pumice, which was used crushed like a good raw material for the construction of roads and railways. Front (west) part of the quarry has eventually created depression, by exploitation, deep and up to 18m on some places relative to the original surface. Then it came to the penetration of water vessels (probably associated with the nearby river Ibar), water filled quarry for months, until finally abandoned, because it was no longer economically viable. After that, at this place was formed the “natural/artificial“ lake, which soon completely filled the whole depression, and quarry in Rudnica became a favorite beach of the local population. Then, in 1996. one event has again changed the look of this place: administration of nearby mine, which had flotation less than 2km downstream, due to the risk of collapse of the existing large landscaped tailings near Ibar (visible today), have decided to use the lake in a former quarry in Rudnica as a space for disposal of tailings created as an industrial waste after crumbling ore flotation. In just a few months systematic filling of lake with tailings sludge by implemented pipeline has turned this place into a puddle with a huge residue of recent sediment and water level not deeper than 0,5m. In the southern part of the coast has remained only one narrow truck trail, width to 2,5 m. Precisely this situation was caught in 1999., when, according to information’s from the previous investigation, it came to the formation of the tomb in Rudnica. Finally, in year 2000, the area of the former quarry and lake got a new owner - the company “Kosmetput“, which built their administrative building right on the coast in the period of late spring, they have flattened and leveled a large part of the southern zone of the quarry by heavy machinery, for the purpose of parking its fleet, working machines and trucks. Precisely this situation was caught at the beginning of the excavation, but that, according to the order of the investigating judge, during the winter and early spring of this year (2014), the building was demolished to the level of the concrete foundation, for the purposes of investigations at the exhumation. On the location, during stratigraphic excavations were discovered and collected the remains of: 45 of whole or nearly whole bodies; 88 groups of dislocated body parts (DB) (both classes of findings with series of artefacts and wardrobe); 25 dislocated groups of surface finds body parts (SB); 134 dislocated findings of artifacts (DA); 15 dislocated surface finds of artifacts (SA); 19 samples for analysis (SAM) of soil, ores, minerals, organic materials and the like.

5. CONCLUSION

While the forensic process is under the overall responsibility of a Serbian investigating judge with the support of Serbian forensic experts, these participating organizations have been authorized by the judge to make suggestions, observations and generally participate in all phases of the project. Although the primary role of these institutions is of observers, they also provide in kind contributions to the implementation of the project:

Eulex - Assists with a team of experts in forensic archaeology, forensic anthropology and project management;

ICRC—provides equipment for the archaeological and mortuary phase and provides a contribution in kind consisting of ordinary equipment, such as technical clothing, working tools and utensils, office consumables, etc.;

ICMP- loans field equipment, genetic profiling analysis, possible on site forensic engagement and provides a lease of substantial technical equipment, such as an EDM total station, osteometric board laboratory, anthropological calipers and sublers, etc.;

Pristina Delegation - represents Kosovo and communicates with Family Associations.

The role of the Municipality of Raska is to provide electricity and water supply and to secure the location on a 24h/7d basis by the Raska Police Station and Kraljevo Police Regional Headquarters.

Together with the Government of Serbia, which supports the Commission through provisions from the national budget, financial contributors to the implementation of the project are bilateral Donors (Norway, Switzerland, United Kingdom) have been asked for direct conferral of funds, through a contribution in cash to the Commissariat for Refugees and Migration of the Republic of Serbia on the basis of a specific Memorandum of Understanding;

The Government Commission on Missing Persons is obliged to follow Serbian procurement regulations (as stipulated by Article 39 of the Law on Public Procurement -124/2012). For any services that exceed RSD 400,000 (approximately EUR 3,448) a tender procedure is required. A concourse is established for a minimum of three companies to compete for a service contract. This is accessible through a Government internet portal.

For purchases of goods and services under RSD 400,000 (EUR 3,448) the mechanism of competitive pricing is used. Potential suppliers are invited to make offers regarding the required equipment or services. If this purchase is part of a specific project, then it is audited in conjunction with the results of any tendered contract.

In regards to the hiring of specific experts, the Government of Serbia issued Decision 05:404-2546/2014 which exempts regular public procurement regulations given that the specific forensic expertise needed for this project is limited. It is important to mention that the cost of hiring these experts will be paid through the Commission.

Potential donor funds should be channeled through national mechanisms given that this project involves the recovery of forensic evidence which lies under the responsibility of the state and more specifically under the Government Commission on Missing Persons and the Belgrade High Court for War Crimes.

Accountability and transparency for the fund expenditure is assured through a series of independent audits conducted by expert auditors. This will produce a financial and narrative report half way through the project as well as a final report. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commissions preparation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commissions internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Commission board, as well as evaluating the overall presentation of the Statements.

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ACTUARIAL METHODS AND ASSUMPTIONS IN THE RETIREMENT BENEFITS PLANS

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ABSTRACT

The main objective of any pension scheme is to fulfil target pension liabilities as they fall due. Attaining this objective requires planning, assumptions, funding and continuous monitoring. The need to recognize and make provision for benefit payments in advance, involves the actuary in placing a present value on the future commitment to pay benefits. The main calculations carried out by actuaries are to determine annual cost (required contributions) of providing the pension benefits and the level of liabilities that should be recognized at a specific point in time. Contributions inflow is occurring at a different time and in a different pattern, so that the time value of money is an important consideration. Actuarial methods and assumptions in determining both the cost and funded status of pension plans and institutions for retirement provision across the European countries are different. Project Unit Method is the most common method used for determining the required contribution rate. Also, other methods, such as: Attained Age, Entry Age and Aggregate Methods are also sometimes used. Actuarial assumptions required in the valuation of retirement are economic assumptions and demographic assumptions. The flexibility in assumption setting and the lack of standardised sensitivity analysis creating potential hazards within the pension scheme. The aim of this paper is to show the influence of various actuarial assumptions on pension benefits and provision, because pension liabilities are highly sensitive to changes in actuarial assumptions. Special attention is given to plans of defined payments after termination of employment, rendering of a service, i.e. Projected Unit Credit Method (PUCM) in accordance with IAS 19 requirements. Various simulations and sensitivity analyses are prepared in order to evaluate the parameters of the model, validation and verification of obtained results.

Keywords: *Actuarial assumptions, PUCM, Sensitivity analysis, Pension plans*

1. INTRODUCTION

Pension policy is extensively present in the policy of every country. Numerous reasons, such as systemic, demographic, economic and political ones, led to the crisis in functioning of the state pension system in almost all countries, and especially in countries in transition. Fundamental reasons behind the current financing system, which lacks adequate financial reserve, are generally within the conceptual inexistence of a functional relationship between paid contributions and the pension level, therefore, lack of equilibrium of the level of required reserves and liabilities is a general characteristic of this system. Systemic reasons for misbalance in functioning of the current financing system lie, first of all, in inexistence of a full financial relationship between paid contributions and the pension level, i.e. non-recognition of the actuarial equivalence principle in its full essence as the basic insurance principle. These features led to existence of a big discrepancy between pension contribution rates and rates that are demographically conditioned, highly planned replacement rates, inadequate formulae for pension calculation. Pension insurance and the institutional reform of the pension insurance system are main topics currently and take up a significant position in plans of the countries with developed market economies, and especially countries in transition. Modalities and parameters for realisation of a long-term and sustainable pension system are different and present one of the most important challenges in this area. Undoubtedly, there is a significant connection between the selected parameters and stability of a pension system. Numerous researches

indicate that sensitivity to changes in the basic parameters make the pension insurance, from the aspect of management of pension funds and pension schemes, a complex product. Time and duration of defined retirement benefits are not fixed and certain and they depend on the beneficiary himself. There may be a considerable delay between the promise to pay benefits being given and the actual payment of benefits. Therefore, information on the benefits promised before they are actually paid are necessary, i.e. actuarial projections that use assumptions about future events. Also, continuous analysis of the demographic and economic experience of a pension scheme is necessary, as well as calculation of the retirement benefits payable (early retirement reduction factors, lump sum benefits etc.).

2. MAIN CHARACTERISTICS OF PENSION PLANS

Pension plan can be with a defined contribution or a plan with defined benefits. Regarding Defined Benefit (DB) plans, benefits to be paid are defined in advance. The absolute level of the benefits may be defined in fixed monetary terms, perhaps dependent upon the number of years of service that the employee has achieved. These fixed benefits can be harmonised after retirement according to a contracted criteria (e.g. retail prices index). Formulae are in function of earnings in the year preceding the retirement (final salary plan) or the average earnings in a longer period (career average pay), which provide a big difference at the amounts of annual pension, as can be seen in continuation. If an individual earnings in year t is PY_t , and the rate of allocation approved in the year t is b , then total annual pension, according to the plan of average length of service for an individual who started working at e age, and is retired at r age:

$$\text{Pension benefit p.a.} = \sum_{t=e}^{r-1} b_t PY_t$$

If percentage of allocation for every year is the same, i.e. $b_t = b$, we have:

$$\sum_{t=e}^{r-1} b PY_t = b \sum_{t=e}^{r-1} PY_t = b(r-e) \frac{\sum_{t=e}^{r-1} PY_t}{(r-e)}$$

The second type of formulae for determination of pension benefits is use of the average of m years out of total n years of service, where $m < n$, and a_t is the rate of allocation according to the pension approved in year t . According to the plan of five-year average, the amount of the pension benefit would be calculated using the following formula:

$$\text{Pension benefit p.a.} = \sum_{t=e}^{r-1} a_t \cdot \frac{\sum_{t=r-5}^{r-1} PY_t}{5}$$

We will show an example of difference between amounts in annual pension by applying the stated calculations. Let entry age be 35, retirement age 65, contribution rate $b_t = b = 1\%$ out of earnings every year, earnings growth is 3% every year, with earnings in the first year at the amount of 10,000. Annual pension benefit in this case is:

$$b(r-e) \cdot \frac{\sum_{t=e}^{r-1} PY_t}{r-e} = 4,658$$

if $a_t = \text{const.}$, i.e. contribution for allocation for pension is the same in every year, we have:

$$\sum_{t=y-5}^{y-1} PY_t$$

Pension benefit p.a. = $a \cdot (r - e) \cdot \frac{t=y-5}{5} = 6,870$.

The benefits for service up to a given point in time, whether vested rights or not are accrued benefits. They may be calculated in relation to current earnings or projected earnings.

Where the pension formula defines benefits in terms of years of service, the accrued benefits are equal to the benefits defined by the formula but using only years of service up to the valuation date.

Let entry age be 20 and current age 35, as in previous example, retirement age 65 with retirement pension of 1% of salary per year of service.

$$\begin{aligned} \text{Accrued benefits p.a.} &= \text{past service} \cdot 1\% \cdot \text{salary} \\ &= (35 - 20) \cdot 0.01 \cdot 10,000 = 1,500 \end{aligned}$$

The second method for calculation of accrued benefits is when total available benefits are multiplied by the ratio of number of years of service up to the valuation date to total years of service possible until benefits commence payment.

$$\begin{aligned} \text{Accrued benefit p.a.} &= \frac{\text{past service}}{\text{max service to age 65}} \text{pension benefit at age 65} \cdot \text{service to age 65} \\ &= \frac{35 - 20}{65 - 20} 0.01 \cdot 30 \cdot 10,000 = 1,000 \end{aligned}$$

Defined Contribution (DC) plans provide an individual account for every participant and pension benefits are based exclusively on paid amount on the participant's account, on investment return and losses that are allocated to such account. Plans with determined contributions require that the amount or method for payment of contributions is contracted, and the contribution is paid to the account of every participant. If the amount of contribution is not defined, when contributions are paid it is mandatory in plans to allocate those contributions at participants' accounts according to the contracted criteria. The actuarial involvement in DC arrangements reflects to a large extent the actuarial involvement in normal life-assurance savings contracts. The majority of cases defined contribution plans may well be implemented using insurance contracts.

Actuarial involvement in occupational retirement provision differs more markedly from involvement in life assurance for DB plans and in particular "salary-dependent" plans. The level of actuarial involvement in occupational retirement benefits reflects the extent to which the occupational benefit system itself has been developed. This in turn reflects historical factors and specific conditions in the country.

3. ACTUARIAL METHODS

Each method may be characterised by security and stability of the method. The stability of a method would normally be considered in terms of the conditions required to ensure that the annual cost as defined by the method remains relatively stable. All the methods used can be considered prospective in that they refer to future liabilities and future contributions. The calculations are always based on the details of the current population of the pension scheme but in projecting the benefit payments to be made the population development is also projected. Whatever the method used, the underlying objective is always the same: the contributions made need to be sufficient to ensure that the benefits promised can be paid when they fall due. Apart from this main objective, there are other objectives of actuarial methods. One of differentiation is to when the cost is met, where we have several methods.

Pay-as-you-go method introduces the concept of using the contributions made in respect of one generation (current employees) to pay the benefits accrued by another (current pensioners). An

advantage of the method is that on the introduction of the pension scheme, contributions in respect of active employees can be used immediately to pay pension benefits to retired people who would have been members of the scheme. This method is used in France, Serbia (public pension system), etc. One of the assumptions is that a system of public pension insurance can adequately function, among other things, in a situation when there are a great number of active insured relative to the number of insurance beneficiaries. It is estimated that this is a situation where pension remuneration (pension) for one beneficiary is financed from contributions of 3-3.5 (Rakonjac-Antic, 2012) or more active insured persons. In Serbia, dependency ratio is 1,1:1. With capitalisation or funded methods the cost of benefit provision is met when the employer is still active. The aim in respect of each individual is to have accrued an amount equal to the present value of all future benefit payments at the point in time that employee leaves the services of the employer. Capitalisation method can be further classified based on how the cost is met over the active service period. With fund-driven methods, the objective is to maintain a certain level of funding, which then defines the contribution required. This group of methods includes Current Unit method and Projected Unit method.

Definition of a certain level of contribution is the objective of Contribution-driven methods and further defines the level of fund to be accrued by a specific point in time. These methods include Entry Age method (EAN), Attained Age method and Aggregate method (Aitken, 2000; Anderson, 1992; Greenan, 2002). The Current Unit method is the most common way of funding for Dutch, Finnish, Norwegian and Swiss self-administered pension funds. The Projected Unit method is the most common choice in the United Kingdom, Ireland and Belgium, but this method is however also used by Spanish, Portuguese and Dutch pension funds and where IAS 19 (FRS 17 (UK) and RJ 271 (NL)) is applied for commercial accounting purposes (Collinson, 2001). Where insurance funding is popular, the Level Annual Premium method is commonly used.

The different methods do not only represent the different philosophies of actuaries regarding the “funding” of pension schemes and the recognition of pension cost. Method selection depends on historical development of retirement provision, but also on the freedom of choice available to the actuary and the restrictions of regulatory authorities.

The need to recognize and make provision for benefit payments in advance involves the actuary in placing a present value on the future commitment to pay benefits. That means finding the amount that needs to be held now in order to meet an uncertain commitment in the future. Actuaries reduce the future net cash flow of payments of benefits to employees by discounting to its real present value. On the other hand, the full present value of the total future benefits is not normally held at the time when the pension promise is first granted, but is recognised gradually over the period. Actuaries will select the method for this purpose. However, actuarial involvement in retirement benefits does not end with calculation and projection of the overall annual cost and accrued liabilities, there are numerous additional actuarial calculations.

4. DEFINED BENEFIT PLANS AFTER TERMINATION OF EMPLOYMENT, I.E. RENDERING OF A SERVICE

Benefit plans after termination of employment, i.e. rendering of a service related to the benefit, are formal and informal agreements stating that a company provides benefits after termination of employment. Actuarial techniques are mandatory to use in order to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. Both categories of actuarial assumptions are used, economic and demographic ones. IAS19 stipulates that PUCM is used and the paragraph 57 encourages involvement of a qualified actuary in the measurement of all obligations.

Present value of defined benefit is the present value of expected future benefits arising from employment in the current and prior periods.

Present value of the future benefit of an employee j of x age in the moment t is

$$PV_t(\text{future benefits}) = B^j(y)v^{y-x} {}_{y-x}P_x$$

where:

y - age when the benefit is paid or pension payment began,

v - a discounting factor involving the annual rate of interest or rate of return on bonds,

${}_{y-x}P_x$ - probability that a person of x age lives until $y-x$ age, i.e. gains the right to benefit,

$B^j(y)$ - the amount of a lump sum payment or present value of a pension in the moment y

According to PUCM, current service cost is calculated by taking the present value of the future benefit (lump-sum payment or pension) and attributing that value to all years of employment. Current service cost in the moment t is defined as:

$$CSC_t^j = B^j(y)v^{y-x} {}_{y-x}P_x \frac{1}{y-e}$$

where e = age of joining the plan.

Obligation in the moment t is defined as present value in the moment t of future benefits reduced by future contributions:

$$\text{pucm}PVO_t^j = PV_t(\text{future benefits}) - PV_t(\text{costs of future employment}),$$

where $PV_t(\text{costs of future employment}) = CSC_t^j(y-x)$.

That leads to

$$\text{pucm}PVO_t^j = B^j(y)v^{y-x} {}_{y-x}P_x - CSC_t^j(y-x) = B^j(y)v^{y-x} {}_{y-x}P_x \frac{x-e}{y-e}$$

This alternative formula is also called the "pro-rata" approach to calculation of the final obligation since the present value of a future obligation is determined as a ratio from total service until the calculation date and expected total service that relates to the right to the benefit. Previous formula can be presented as the sum of obligations arising from income from the current employment year and previous years of employment as follows:

$$\text{pucm}PVO_t^j = B^j(y)v^{y-x} {}_{y-x}P_x \frac{1}{y-e} + B^j(y)v^{y-x} {}_{y-x}P_x \frac{x-1-e}{y-e},$$

Benefits belonging to previous years of employment for $p_{x-1} > 0$ can be expressed in the form

$$PB_t^j = \frac{y-(x-1)P_{x-1}}{p_{x-1}} B^j(y)v^{y-(x-1)} \frac{x-1-e}{y-e} + i {}_{y-x}P_x B^j(y)v^{y-(x-1)} \frac{x-1-e}{y-e}.$$

If we assume that we observe an obligation arising from benefits belonging to previous years of the employee's service who remained in the company from year $t-1$ to year t , i.e. p_{x-1} of that employee is no longer important to us, i.e. we can assume that for him $p_{x-1} = 1$, then we have the following:

$${}_{y-(x-1)}P_{x-1} B^j(y)v^{y-(x-1)} \frac{x-1-e}{y-e} + i {}_{y-x}P_x B^j(y)v^{y-(x-1)} \frac{x-1-e}{y-e}$$

The first addend is an obligation for an employee for year $t-1$, and the second addend is additional cost for year t , i.e. interest cost, which presents increase of the present value of defined obligations during period that occurs, because benefits from one period are closer to settlement.

Actuarial gains and losses comprise the difference between the pension payments actually made by an employer and the expected amount. A gain occurs if the amount paid is less than expected.

A loss occurs if the amount paid is higher than expected. Gains and losses can also arise from adjustments in actuarial assumptions.

Past service cost is the change in the present value of the obligation according to defined benefits, which results from the change or significant reductions of the plan. Past service cost may be either positive (where benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (where existing benefits are changed so that the present value of the defined benefit obligation decreases).

5. PUCM AND CHANGES IN ACTUARIAL ASSUMPTIONS

Actuarial assumptions shall be unbiased and mutually compatible. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative. Two main categories of actuarial assumptions are economic and demographic assumptions. Economic assumptions are required to project the amount of benefits that will be payable. Some of economic assumptions made by actuaries in valuing retirement benefits are discount rate, inflation, rates of salary increase and pensions in payment, rate of increase in pension benefits for deferred pensioners, state pension benefits increase, and rate of increase in dividends. Actuarial assumptions are mutually compatible if they reflect the economic relationships between those factors.

Inclusion of an assumption in the calculation and its level depends on specific features of a country, regulatory authorities or an employer, and other indicators taken into account by actuaries. The assumptions represent a best estimate of the long term development of interest earnings, salary and prices inflation. Discount rate may be chosen by reference to market bond yields on high quality corporate bonds. In countries where there is no deep market in such bonds, government bonds are used. In event of a sufficiently long maturity to match the estimated maturity of all the benefit payments (as in Serbia) actuaries use current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. Discounted series of payments can be invested and additional income can be achieved.

The second category of assumptions are demographic assumptions functioning as projection of development of current and former employees who are eligible for benefits. The study by Sithole et al. (2011) reveals that mortality assumptions vary systematically across countries. In some countries, different mortality tables are used; in other countries only one table is accepted. While differing life expectancies of men and women are mostly taken into account. In European countries, mortality tables usually contain projections of expected future improvements in life expectancy, although tables with past mortality data are in use. Rates of turnover, disability and early retirement are mainly included in calculations.

Influence of changes in actuarial assumptions to pension liabilities we will show in a company X from Serbia that has 1202 employees as of 31.12.2016. Various simulations and sensitivity analyses are prepared in order to evaluate the parameters of the model. For this purpose, the main assumptions were stated and provisions were calculated based on PUCM, and then model parameters were changed and the achieved influence was observed.

1. Condition for a regular retirement in Serbia for men is 45 years of service or at least 15 years of service and 65 years of age. Condition for early retirement is a combination of the condition for the old-age pension and required years of service according to the table of the regulatory authority. Required years of service are 40 years, while old-age condition increases, every year until 2024, until 60 years of age. In 2017, condition was 40 years of service and 56 years and 4 months of age.

Condition for regular retirement for women is 45 years of service or at least 15 years of service and age according to the table of the regulatory authority. In 2017, condition for old-age for women was 61 years and 6 months and 15 years of service. Condition for early retirement was 55 years and 8 months of age and 37 years and 6 months of service. Conditions increase every

year until 2024, i.e. 60 years of age and 40 years of service. Pension is permanently reduced by 0.34% for each month before coming of the years of age stipulated for acquiring the right to old-age pension.

When calculating provisions for termination benefits the first condition for retirement is taken (although it is not so common in practice), and termination benefits are not reduced in case of early retirement. In Serbia, the Labour Law stipulates that the minimum base for termination benefits when retiring is 2 average gross earnings in the Republic. The company X stipulated by an internal act 12 average gross earnings in the company.

2. In Serbia actuaries have freedom to estimate all of the parameters used in the calculations with some minimum requirements. Actuarial assumptions:

Regular discount rate is 3-5%. In undeveloped capital market, i.e. with minimum presence of debt securities in Serbia, it is difficult to define the benchmark for discount rate trends, which would reduce the future net cash flow of employees' benefits to its real present value. Previously, rate of return to frozen foreign exchange savings bonds was used, i.e. average weighted rate of return that can be expected in future from long-term government bonds with a corrective criterion, extrapolation based on macroeconomic modelling of applicable rates of return from short-term government bonds. In 2017 government bonds were issued in Euros with maturity of 10 years and return of 4%. Discount rate, stipulated by the regulatory authority (National Bank of Serbia-NBS) for technical provisions, is a one-year-five-year average of the rate of return or 5%, while for the mathematical provision it is 3% (from August 2017 it will be 2.25%). The key policy rate of the NBS decreased, since the beginning of 2015, from 8% to 4%. Rate of price inflation is 1.6% and rate of decrease in social security benefits is about 2.2% for 2015 (there are no new data, although slight increase of social security benefits is expected). Growth rate of earnings is defined either based on growth of earnings for the industry sector and the territory (average salary in Belgrade is by 126% higher compared to some cities in the south of the country) in the Republic (approximately 2%), or based on company management plans and specific features of the company itself. In certain companies of foreign ownership, earnings are connected to EUR (1 EUR=123.46 RSD on 31 December 2016).

Fluctuation rate of employees is long-term or set according to periods (number of periods and number of years in periods used in calculations is different and reflects specificity of a certain company). Long-term fluctuation rate used is from -2% to 2%, depending on the company.

Many companies in Serbia reduced number of employees in previous period due to restructuring process. Within the observed sample of 20 companies, the number of employees was in average reduced by 6% compared to the previous year, and percentage is far higher if we observe the period from 2013. If it is not possible to determine the rate based on past experience, then management plans or their combination is used.

Most often applied annuity tables are mortality tables RS2010-2012 (the regulatory authority stipulates use of the latest tables, separately for men and women). In some cases, mortality rates are derived by combining past experience of insurance companies and mortality of Serbian population. For disability, actuaries either directly implement foreign tables (from reinsurers, mostly German tables) or combine them with available data of Serbian population. A single rate of about 0.15% is often used.

Government bonds represent the bulk of portfolio investments. Currently, the longest maturity for government bonds of the Republic of Serbia in dinars is 7 years with maximum return of 5.6%¹, while for government bonds in it is 10 years and return is from 4% and they are exempted from tax payment.

¹ Issue in 2014 to 10 years with weighted average interest rate on the Republic of Serbia dinar government securities of 12.99%, and issue in 2016 with weighted average interest rate on the Republic of Serbia government securities in euro of 4.2%. <http://www.javnidug.gov.rs>

As can be noticed from the above stated, actuarial assumptions vary. Also, considering a large number of problems in application of IAS 19 in Serbia, a relevant experience in the national market is necessary. In our calculation, mortality tables RS 2010-2012 and disability rate 0.15% remain unchanged. Table 1 shows a comparative overview of provisions depending on the change in the main actuarial assumptions.

Table 1: Set of Assumptions-change in discount rate, salary growth and fluctuation rate (Author's calculations)

Assumptions	Basic	A1	A2	A3	A4	A5	A6
Discount rate	4%	5%	3%	4%	4%	4%	4%
Salary growth	2%	2%	2%	3%	1%	2%	2%
Fluctuation rate	0%	0%	0%	0%	0%	1%	-1%
Provisions (EUR)	2,619,198	2,310,715	2,996,074	3,000,127	2,302,437	3,008,499	2,296,669

Comparison of changes in amounts of provisions is done in relation to the first set of assumptions (basic), discount rate is 4%, salary growth is 2% and long-term fluctuation rate is 0%. Change of the discount rate by 1% on average decrease or increase the value of the liability by 13,10% (comparison of basic assumptions, assumptions 1 and assumptions 2).

Change in the salary growth rate by 1% will on average decrease or increase the value of the liability by 13,32% (assumption 3 and 4).

When observing separately, the positive fluctuation rate leads to a higher level of provisions, while the negative rate reduces the level of provisions. Negative rate, under assumption that the number of new employees of younger age, and the number of employees who left the company are of older age, can lead to higher provisions. Moreover, change of the fluctuation rate by 1% change will on average decrease or increase the value of the liability by 13.59% (assumption 5 and 6). Changes in only one parameter for 1% leads to the increase/decrease of the provision for about 13%. Let's assume now two set of assumptions, "optimistic" and "pessimistic" sets. Optimistic scenario assuming that new employees are young and that the fluctuation rate is -1%, salary growth is 1% and discount rate is 5%.

Table 2. "Optimistic" and "Pessimistic" assumptions (Author's calculations)

Assumptions	Basic	Optimistic	Pessimistic
Discount rate	4%	5%	3%
Salary growth	2%	1%	3%
Fluctuation rate	0%	-1%	1%
State of provisions	2,619,198	1,822,923	4,044,404

All selected assumptions in optimistic set lead to decrease of provisions. In comparison with initial assumptions, this set of assumptions decreases provisions by 30.40% (Table 2). On the other hand, pessimistic simulation parameters increases provision by even 54.41%.

Using only mortality tables, without any additional adjustments for the disability rate 0.15%, the provisions level increases by approximately 2%. Furthermore, changing the assumption about life expectancy by one year, on average leads to a 3-4% change in the value of pension provision. IAS 19 stipulates disclosure of results of sensitivity analysis that indicates the influence of each significant actuarial assumptions on the outcome of pension valuation, as it is shown. In Serbian practice, however, the sensitivity analysis mostly includes only increase/decrease of the discount rate and salary growth rate.

6. CONCLUSION

Impact of actuarial assumptions on companies' balance sheet is economically significant. The actuarial method and assumptions that are used depend upon pension scheme and the purposes for which the calculations are being made. In the majority of European countries, different regulatory authorities interested in the results of the calculations restricting a free choice of the calculation method and assumptions. The restrictions can be rigorous or prescribe a minimum or maximum, either in the method and assumptions. On the other hand, company management enjoys a certain degree of discretion to set some parameters. On the other words, companies use the discretion available to them to manipulate the assumptions to their advantage. Changes in only one parameter for 1% leads to the increase/decrease of the provision for about 13%. The more "optimistic" assumptions (higher discount rate, lower salary growth and fluctuation rate) can lead to decrease of provision/obligations by even 30%. The assumptions need to represent the best estimate of the long term development of key parameters with all necessary explanation and continuous analysis of the demographic and economic experience.

It is necessary that the certified actuary is independent while performing his business activities and that he performs his business activities in accordance with the law and rules of actuarial profession, good business customs and business ethics. Actuarial assumptions should be unbiased and mutually compatible and reflect specificity of the company and the state.

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THE DEVELOPMENT OF THE SMEs SECTOR IN POLAND

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ABSTRACT

In the early 1990s the Central Statistical Office (GUS) in its publications on small and medium-sized enterprises used to classify companies according to the number of employees. That is how the division into small – with up to 5 members of staff, medium-sized – employing from 6 to 50 people and big – with more than 50 employees – enterprises was introduced. However, due to the need to adjust the GUS criteria to the EU standards a new division of companies was implemented for the reporting needs, namely: micro-companies with 0 – 9 employees, small businesses employing 10-49 people, medium-sized ones with the headcount of 50 – 249 and big enterprises having the workforce of more than 250 people. Currently the sector comprising micro, small and medium-sized enterprises is a dominant group of business entities in the European economy. There are almost 2.6 million entrepreneurs who conduct their business in EU member states.

Small and medium-sized companies account for 99.8% of the total number of non-financial enterprises. The prevailing group here - representing 92.4% of such businesses - are micro-businesses, 6.4% are small companies and 1% are medium-sized enterprises. When compared to the EU's average, the largest sector of SMEs can be found in Portugal, Spain, Italy, Greece, Sweden, the Czech Republic and Slovakia. The benefits of having small and medium-sized companies had not been recognised in Poland until 1990s. Then the government started a number of initiatives designed to show some directions for development and provide support to this group of market participants, as well as launching a series of programs, such as “Small and medium-sized enterprises in the economy” in 1995, “The directions of the government’s activities towards small and medium-sized enterprises for up to 2002” in 1999 and “Entrepreneurship first” in 2002. The aim of the paper is to review the factors which affect the SMEs sector in Poland and to evaluate the structure of this sector.

Keywords: *Development, Poland, SME*

1. THE EVOLUTION OF THE DEFINITION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EUROPEAN UNION

The evolution in the way of defining small and medium-sized enterprises started in the 1970’s. It was the time when the significance of small and medium-sized enterprises for a national economy gradually increased. This growth was mainly driven by the world economic crisis and the subsequent recession and the ensuing rise in unemployment.

The most important factors contributing to the growing significance of small and medium-sized enterprises in the period were¹:

- advancements in the technologies involved in the production of goods and services,
- the growth of the service sector,
- increased competition from the Third World and the decreasing international competitiveness of large companies,

¹ Cf. D.J. Storey, *The Role of Small and Medium-Sized Enterprises in European Job Creation: Key Issues for Policy and Research* [in] *Small and Medium Sized Enterprises and Regional Development* red. M. Giaoutzi, P. Nijkamp, D.J. Storey, Routledge, London 1988, pp.144 – 148; Jong Il You *Small Firms in Economics Theory*, Cambridge Journal of Economics, vol. 19, Nr 3; B. Piasecki, *Ekonomika i zarządzanie małą firmą*, PWN Warszawa, 2001, pp.77-79;

- changes in the market environment leading to the increased competitive advantage of small businesses,
- changes in the market for factors of production,
- rising energy prices and falling global demand,
- the macroeconomic effect – the expansion of the SME sector during a recession,
- political factors, promotion of entrepreneurial culture, and anti-government prejudice,
- fashion and changing tastes,
- changes in the strategies of large companies.

At present, the above factors need to be supplemented by²:

- specific working conditions and atmosphere in small businesses,
- the absence or weak position of trade unions in small businesses and, in consequence, low losses caused by collective labor disputes or strikes,
- reforms, implemented gradually, that aim at the promotion of small entrepreneurship,
- the emergence of new and more individualized customer needs, attributable to societies becoming more affluent, that create demand for services and goods delivered by small business.

The analysis of the qualitative features of small and medium-sized enterprises contributing to the continuous growth in the role of this category of economic entities in each country identifies³:

- the ability to create new jobs at relatively low costs,
- significant flexibility resulting in a prompt response to constant changes in the environment and in customer expectations,
- strong innovation orientation and high innovativeness in their activity,
- a positive impact on regional development.

In Western European countries, the first attempt to create a definition of small, medium-sized and large enterprises was made in the Report of Committee of Inquiry on Small Firms (Bolton Report) published in the UK in 1971. The report was the first publication to offer the classification of small businesses and their major characteristics, which comprised an impact on the market, independence, and the personal involvement of the owners in all the decisions taken in a company. Small and medium-sized enterprises have small market share, which translates into their inability to make an impact on prices or supply. The firms operating in a market niche are an exception. Independence means that a firm is not part of a larger enterprise. This also means that the owners running a firm make management decisions without external control. The report narrows down the definition of small and medium-sized enterprises to those under direct management of the owner. A degree of decentralization concurs with increasing employment⁴. Accordingly, both quantitative criteria, presented in the table below, and qualitative criteria were adopted.

Table 1 - Quantitative criteria adopted for small businesses in the Bolton Report

Industry	Number
Manufacturing	Headcount of up to 20 persons
Construction	Headcount of up to 25 persons
Retail	Annual turnover of up to GBP 50,000
Road transport	Possession of up to 6 vehicles

² Cf. B. Piasecki, *Przedsiębiorczość i mała firma. Teoria i praktyka*, Wyd. Uniwersytetu Łódzkiego, Łódź 1997, pp.108-110;

³ Cf. J. Baruk, *Dylematy rozwoju małych i średnich przedsiębiorstw*, *Gospodarka Narodowa* 2003, No. 3;

⁴ Cf. J. Atkinson, N. Meager, *Running to Stand Still: The Small Business in the Labour Market, Employment, The Small Firm and the Labour Market*, Routledge, London 1994;

Source: own elaboration based on J.E. Bolton, Report of the Committee of Inquiry of Small Firms, Cmnd 4811, HMSO, London 1971, Section 13, p.19;

The publication of the Bolton Report did not, however, lead to the unification of values in particular EU member states. The classification was based on quantitative criteria, but one could observe the individual approach of the member states to the values adopted. Table 2 gives the examples of how small and medium-sized enterprises were defined across the EU.

Table 2 - Quantitative criteria applied in selected EU countries priori to the adoption of the uniform definition of a small and medium-sized enterprise.

Great Britain	Headcount of up to 200 workers.
Netherlands	Headcount of up to 100 workers.
Denmark	Small business – headcount of up to 20 workers. Medium-sized business – headcount of 20-100 workers.
France	Criterion adopted for draft businesses. Small business – headcount of up to 45 workers. Medium-sized business – headcount of 50-499 workers.
Germany	Small business – headcount of up to 50 workers. Medium-sized business – headcount of 51-300 workers.. Economic analyses and statistical data are based on the assumption of the headcount of up to 500 workers for small and medium-sized business.

Source: own elaboration based on: K. Czarkowska, UE wobec małych i średnich przedsiębiorstw, [in] Polski przedsiębiorca w Unii Europejskiej, Hubertus, Warszawa 2000, p. 215; B. Piasecki Przedsiębiorczość i mała firma. Teoria i praktyka, Wyd. Uniwersytetu Łódzkiego, Łódź 1997, pp.89-91;

The next stage in the evolution of how small and medium-sized enterprises were defined was the launch of the Community policy on the sector of small and medium-sized enterprises. The European Community announced the year 1983 to be the Year of Small and Medium-sized Enterprises and Craft Industry. The subsequent step was the establishment of the independent small business task force in 1986. As a result of its initiatives, the Policy in favor of Small and Medium-sized Enterprises was developed and adopted on 3 November 1986. This policy document is considered to be the formal launch of the community policy towards small and medium-sized enterprises. The policy led to the adoption by the European Council of the resolution on the development of entrepreneurship infrastructure and actions aimed at the promotion of entrepreneurship, in particular among small and medium-sized enterprises in the European Community countries. The next stage of the evolution of small and medium-sized enterprises was connected with the signing of the Maastricht Treaty in 1992.

The Maastricht Treaty was the most important legal document that stressed the role of small and medium-sized enterprises. Article 130 stipulates that “the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist. Their action shall be aimed at encouraging an environment favourable to initiative and to the development of undertakings throughout the Community, particularly small and medium-sized undertakings, (...) encouraging an environment favourable to cooperation between undertakings, aiming at enabling undertakings to exploit the internal market potential to the full, in particular through the opening-up of national public contracts, the definition of common standards and the removal of legal and fiscal obstacles to that cooperation”⁵.

The factor leading to the elimination of differences in defining small and medium-sized enterprises in the European Community was the periodic statistical reports containing the analysis of the SME sector. Statistical studies distinguished:

- very small firms employing less than 10 people,
- small firms employing from 10 to 49 people,
- medium-sized firms employing from 50 to 249 people.

⁵ Cf. Maastricht Treaty, 1992r., Article 130;

A similar breakdown was used in the annual reports “The European Observatory for SMEs” released by the European Commission, although quantitative criteria were slightly different from the criteria applied in statistical reports:

- micro firms – 1-9 employees,
- small firms – 10-99 employees,
- medium-sized firms – 100-500 employees⁶.

The grounds for the uniform definition of small and medium-sized enterprises was the recommendation 96/280/EC, issued in April 1996, concerning the definition of small and medium-sized enterprises. The implication of the recommendation was the uniform use of the definition of small and medium-sized enterprises by all the European Union member states. The recommendation did not have binding force for the EU member states, yet it still constituted an important step in the process of creating a uniform definition.

The undeniable strength of small and medium-sized enterprises is considerable flexibility in adopting the rules of a single market and efficient adaptation to its requirements. A particularly important role in presenting the significance of small and medium-sized enterprises in the EU economy was played by the set of documents and analyses of the so-called “Lisbon Strategy”, adopted at the EU Council summit in Lisbon in March 2000. By identifying the general structure of goals and priorities in the growth of enterprises as increased employment, the modernized social model for the region, liberalized and integrated markets, accelerated economic development, it started the next stage in creating the uniform definition of small and medium-sized enterprises. The Lisbon Strategy was the basis for the adoption of the European Charter for Small Enterprises, signed in Feira in June 2000. The charter lays down the main principles of the EU policy towards small and medium-sized enterprises.

On 6 May 2003, The European Commission issued the recommendation 2003/361/EC on the definition of small and medium-sized enterprises and the introduction of the concept of a micro enterprise. The proposed changes primarily concerned:

- the raising of the maximum thresholds for an annual turnover or balance sheet in the definition of small and medium-sized enterprises,
- the distinction of different types of enterprises depending on whether they are autonomous firms, partnerships or associated enterprises,
- the introduction of the separate definition of a micro enterprise,
- the exclusion of state-owned enterprises from small and medium-sized enterprises.

Table following on the next page

⁶ Cf. The European Observatory for SMEs, First Annual Report, EIM/European Network for SME Research 1993, p. 51;

Table 3 - The quantitative criterion of the classification of small and medium-sized enterprises according to the Commission Recommendation 2003/361/EC

Small enterprises	Medium-sized enterprises	Micro enterprises
All the criteria must be fulfilled:	All the criteria must be fulfilled:	All the criteria must be fulfilled:
<ol style="list-style-type: none"> 1. Headcount of fewer than 50 workers, 2. Net revenue from the sale of goods, materials and services as well as financial operations not exceeding EUR 10 million, or an annual balance-sheet total not exceeding EUR 10 million, 3. An enterprise meets the criterion of independence. 	<ol style="list-style-type: none"> 1. Headcount of fewer than 250 workers, 2. Net revenue from the sale of goods, materials and services as well as financial operations not exceeding EUR 50 million, or an annual balance-sheet total not exceeding EUR 143 million, 3. An enterprise meets the criterion of independence. 	<ol style="list-style-type: none"> 1. Headcount of fewer than 10 workers, 2. Net revenue from the sale of goods, materials and services as well as financial operations not exceeding EUR 2 million, or an annual balance-sheet total not exceeding EUR 2 million, 3. An enterprise meets the criterion of independence.

Source: own elaboration;

In 2008, the European Parliament adopted the resolution on accounting requirements as regards small and medium-sized companies, particularly micro enterprises. It stipulated that the Fourth Council Directive of 25 July 1978 on the annual accounts of certain types of companies and the Seventh Council Directive of 13 June 1983 on consolidated accounts constituted the first group of directives concerning accounting, but they were often very burdensome for small and medium-sized companies, so the European Parliament recommended the review of the directives through the prism of the information needed by smaller enterprises. When analyzed from the perspective of small and medium-sized enterprises, the directive that is significantly more relevant is the Fourth Directive.

Table 4 - The breakdown of selected entities according to the Fourth Directive (in force Since 18 July 2013)

Type of entity	Micro	Small	Medium-sized
Total assets in euro	350,000	4,400,000	17,500,000
Turnover in euro	700,000	8,800,000	35,000,000
Headcount	10	50	250

Source: own elaboration;

On 14 March 2012, the European Parliament and the Council adopted the Directive 2012/6/UE on the annual accounts of certain types of companies as regards micro entities. The directive amended the Fourth Directive as regards smaller enterprises. The directive 2013/34/UE, adopted in July 2013, resulted from the conducted legislative work and superseded the Fourth and Seventh Directives.

In the Directive, Article 36 on the exemptions for micro undertakings is of greatest relevance. It proposes, *inter alia*, that the member states should exempt micro entities from any or all requirements below⁷:

- a) the obligation to present “prepayments and accrued income” and “accruals and deferred income”;
- b) the obligation to draw up notes to the financial statements provided that relevant information is disclosed at the foot of the balance sheet;
- c) the obligation to prepare a management report provided that the information is disclosed in the notes to the financial statements or at the foot of the balance sheet;
- d) the obligation to publish annual financial statements provided that the balance sheet information contained there is duly filed, in accordance with national law, with at least one competent authority appointed by the member state concerned.

Moreover, the member states may permit micro entities to draw up only an abridged balance sheet and profit and loss account according to specified layouts. Additionally, the Directive allows for the measurement of financial instruments on a basis alternative to fair value.

The new Directive adopts a qualitative approach to the classification of enterprises, as qualitative criteria are deemed the most objective in this respect.

Table 5 - The classification of enterprises according to the Directive 2013/34/EU

Criterion	Micro	Small	Medium-sized	Large
Balance-sheet total	Not exceeding EUR 350,000	Not exceeding EUR 4 million	Not exceeding EUR 20 million	Exceeding EUR 20 million
Turnover	Not exceeding EUR 700,000	Not exceeding EUR 8 million	Not exceeding EUR 40 million	Exceeding EUR 40 million
Number of employees	Fewer than 10	Fewer than 50	Fewer than 250	More than 250

Source: own elaboration;

Enterprises have to fulfill two of the three criteria in order to qualify to a particular category. The data above are given in euro, so it is necessary to change the thresholds into the national currencies. The exchange rate that should be used was published in the Official Journal of the European Union on the date of the entry into force of the Directive. To perform a conversion into the national currencies, the amounts in euro may be increased or decreased by not more than 5 % in order to produce round sum amounts in the national currencies.

2. THE EVOLUTION OF THE DEFINITION OF MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN POLAND

In the early 1990’s, in its publications concerning the sector of small and medium-size enterprises the Central Statistical Office of Poland (GUS) classified enterprises based on the headcount criterion. Accordingly, the smallest entities employed up to 5 workers, medium-sized firms employed 6-50 workers, while large companies employed more than 50 workers. In 1991, GUS aligned its criteria with the EU standards. In consequence, for reporting purposes, new limits delineating particular types of enterprises were introduced: the smallest entities had 0 – 9 employees, small businesses had 10-49 employees, medium-sized firms had 50 – 249

⁷ Cf. M. Osikowicz, Rachunkowość jednostek mikro według ustawy o rachunkowości, [in] Teoria rachunkowości, sprawozdawczość i analiza finansowa, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, No. 388, 2015 p. 161;

employees, while large companies had more than 250 employees⁸. In 1990's, in Poland a small entity was defined as employing up to 100 workers, whereas a medium-sized enterprise as an entity employing 100-500 workers⁹.

It is worth to note that until 2005 Poland had not recognized a micro entity as a separate category of an enterprise.

In most EU countries, the basis for classification is a quantitative criterion, using such absolute measures as the number of employees or an annual turnover. Quantitative criteria as the basis for the classification of enterprises were stipulated in the Act of 2 July 2004 on Freedom of Business Activity.

Table 6 - The criteria of the classification of enterprises according to the Act on Freedom of Business Activity

Enterprise	Micro	Small	Medium-sized	Large
Average annual headcount	Fewer than 10 employees	Fewer than 50 employees	Fewer than 250 employees	More than 250 employees
Net sales revenue	Not exceeding EUR 2 million	Not exceeding EUR 10 million	Not exceeding EUR 50 million	Exceeding EUR million
Balance-sheet total	Not exceeding EUR 2 million	Not exceeding EUR 10 million	Not exceeding EUR 43 million	Exceeding EUR 43 million

Source: own elaboration;

The Act of 29 July 2005 on Public Offer of Financial Instruments, in turn, defines small and medium-sized enterprises as commercial companies that, according to their annual financial statements, fulfill at least two of the following conditions:

- the average annual headcount figure expressed as the number of full-time jobs is not lower than 250 people,
- the balance-sheet total of assets does not exceed EUR 43 million as of a balance sheet date,
- the net sales revenue does not exceed EUR 50 million.

As a result of changes in the Council Directive, Poland's Accounting Act was amended accordingly in order to enforce the regulations introduced by the new Directive. On 5 September 2014, the Act of 11 July 2014 on the Amendments to the Accounting Act (Journal of Laws 2014, item 1100) entered into force. The fundamental change involved the introduction of the statutory concept of "a micro entity" and the specification of the accounting rules for these entities.

The definition of micro enterprises included in the Accounting Act does not align with the definition of a micro entrepreneur in the Act of 2004 on Freedom of Business Activity. The definition in the Accounting Act is more complex. The partial justification for the separate definition of a micro entity as compared to the definition of a micro entrepreneur is the fact that accounting is the information system used also by the entities that are not entrepreneurs.

Pursuant to Article 3 paragraph 1a of the Accounting Act, micro entities are:

1. Entities with their head office or place of management in the Republic of Poland that are commercial companies and partnerships (including those under organization) and civil partnerships, as well as other legal persons and branches of foreign companies. At the same time, exclusion from the category of micro entities was applied to organizations operating under the banking law, regulations on trading in securities, regulations on investment companies, regulations on insurance and re-insurance

⁸ Cf. A. Biernat, *Luka finansowa w sektorze mikro, małych i średnich przedsiębiorstw na przykładzie województwa świętokrzyskiego*, CeDeWu, Warszawa 2015, p.19; Stan sektora MSP w 1999 roku. *Tendencje rozwojowe w latach 1994-1999*. (ed.) J. Chmiel, Warszawa 2001, p.6;

⁹ Cf. H.G. Adamkiewicz- Darwiło, *Uwarunkowania konkurencyjności przedsiębiorstwa*, PWN, Warszawa 2002, p. 30;

activities, regulations on cooperative credit unions, or regulations on the organization and operation of pension funds, irrespective of their income, as well as entities of the public finance sector. Entities that are not included in the list of exemptions are micro entities if in the financial year for which they prepare a financial statement and the year prior to this financial year, or in the case of entities starting trading in this financial year, they did not exceed at least two of the following three values: PLN 1.5 million for the balance sheet total as of the end of the financial year, PLN 3 million for net revenue from the sale of goods and merchandise in the financial year, 10 employees – for the average annual headcount expressed as the number of full-time positions. Additionally, such entrepreneurs can be classified as micro (Article 3, paragraph 1b) if they prepared an abridged financial statement for micro entities for the previous years and, at the same time, in the financial year for which they prepare a financial statement or in the year prior to this financial year, they exceeded even two of the three thresholds mentioned above.

2. individuals, civil partnerships of individuals, general partnerships of individuals, professional partnerships, if their net revenue from the sale of goods, products and financial operations for the previous financial year amounted to no less than the Polish currency equivalent of EUR 1.2 million. Such entities apply accounting principles on a voluntary basis, resigning from the exemption granted pursuant to Article 2 paragraph 2 of the Accounting Act.
3. Firms that are not entitled to the exemption discussed above due to exceeding the threshold for a turnover, new firms and the firms that use accounting for the first time. These include individuals, civil partnerships of individuals, general partnerships of individuals, professional partnerships, if their net revenue from the sale of goods, products and financial operations for the previous financial year amounted to no less than the Polish currency equivalent of EUR 1.2 million and to no more than EUR 2 million for the previous financial year, while in the case of entities starting trading or keeping the books pursuant to the Accounting Act – in the financial year when they started trading or keeping the books pursuant to the Accounting Act. Moreover, micro entities are the following types of economic entities that are not entrepreneurs: associations, trade unions, employer organizations, commercial chambers, foundations, representatives of foreign entrepreneurs, as defined in the regulations on freedom of economic activity, socio-professional farmers' organizations, professional organizations¹⁰.

Micro enterprises were defined as entities that¹¹:

- employ few workers,
- are usually run by the owners,
- report low to average revenues and assets,
- do not hold stakes in subsidiaries, associate entities or joint ventures,
- do not own or issue complex financial instruments,
- do not issue stock or stock options.

¹⁰ Cf. M. Osikowicz, Rachunkowość jednostek mikro według ustawy o rachunkowości, [in] Teoria rachunkowości, sprawozdawczość i analiza finansowa, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu No. 388, 2015 p. 163;

¹¹ Cf. E. Nowak, Sprawozdanie finansowe mikrojednostek w świetle regulacji rachunkowości [in] Czas na pieniądz (ed.) D. Zarzecki, Zeszyty Naukowe Uniwersytetu Szczecińskiego No. 854, Szczecin 2015, p. 1008;

3. THE ANALYSIS OF THE STRUCTURE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN POLAND

Analyzing the structure of sizes of enterprises in Poland in the years 1991-2015 one can state that the SME sector has high growth dynamics with regard to newly established businesses. The researched period can be divided into two stages. One comprises the years 1991-2001, which is related to the fact that until 1991 Poland had not had a universal classification of enterprises¹². It should be stressed that the criterion adopted for the period might not be uniform.

Table 7 - The share and number of SMEs in Poland's economy in the years 1991-2001

Year	1991	1993	1995	1996	1997	1999	2001
Share in %	98.39%	99.6%	99.69%	99.73%	99.76%	99.80%	99.82%
Number in thousands	494.2	1 980.7	2 093.1	2 373.4	2546.4	3 007.4	3 319.9

Source: G. Wielgus, *Rozwój sektora małych i średnich przedsiębiorstw w Polsce*, Prace Komisji Geografii Przemysłu, Warszawa – Kraków, 2006, p.127;

In the years 1991-2001, the number of registered SMEs rose from 494,200 to 3,319,900 and it was the time of the greatest increase in the number of small and medium-sized enterprises. The share of small and medium-sized enterprises in the total number of enterprises operating in the economy also increased.

The compilation above presents all the enterprises registered in the REGON system (the Register of the National Economy). It should be noted that part of the registered enterprises might not have started trading, might have suspended its operations or gone out of business without reporting the fact. The chart below shows the comparison between the number of registered enterprises and enterprises operating actively.

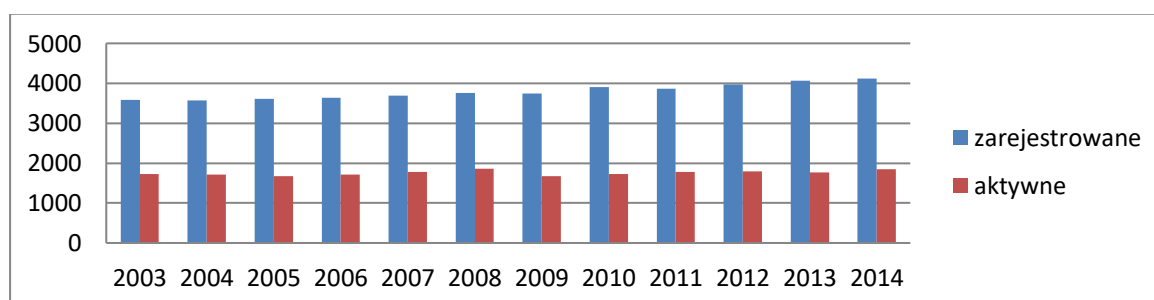


Chart 2 The comparison between the number of registered enterprises and active enterprises in the years 2003-2014;

Source: own elaboration;

The disproportion between registered enterprises and active enterprises is huge. Active enterprises account for 44-49% of the enterprises registered in the REGON system. It is also worthwhile to note that since 2011 the percentage share of active enterprises has been falling. This means that only less than half of the registered firms pay taxes and social insurance contributions, create jobs, and contribute to GDP. Analyzing the years 2003-2014 one cannot easily identify a clear rising or falling trend with regard to the number of registered enterprises and enterprises actively operating in the market.

In Polish business practice, the uniform definition of small and medium-sized enterprises, setting out the criterion of the headcount as obligatory, was introduced only on 1 January 2005.

¹² Cf. H. Waniak-Michalak, *Pozabankowe źródła finansowania małych i średnich przedsiębiorstw*, Oficyna Wolters Kluwer Business, Kraków 2007, p.16;

An enterprise, however, did not have to fulfill both of the two financial criteria (revenue, balance-sheet total), one of them was deemed sufficient. The share and number of active enterprises operating in the market were presented in the table below.

Table 8 - The share and number of active SMEs in Poland's economy in the years 2003-2014

rok	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	1726.5	1714.9	1676.7	1714.9	1777	1862.4	1673.5	1726.6	1784.6	1794.9	1771.4	1843
Micro	1666.6	1653.8	1615.1	1652.9	1713.1	1787.9	1604.4	1655	1710.5	1719.1	1693.7	1765.5
%	96.5%	96.4%	96.3%	96.3%	96.4%	95.9	95.8%	95.9%	95.8%	95.8%	95.6%	95.8%
Small	42.7	44.3	44.5	44.2	45.1	54.9	50.1	52.5	54.9	57	59	57.1
%	2.47%	2.58%	2.6%	2.7%	2.5%	2.9%	2.9%	3%	3.1%	3.2%	3.3%	3.1%
Medium-sized	14.3	14	14.2	14.7	15.4	16.3	15.8	15.8	15.8	15.4	15.3	14.7
%	0.82%	0.81%	0.84%	0.8%	0.86%	0.87%	0.9%	0.6%	0.9%	0.9%	0.9%	0.8%
Large	2.7	2.7	2.8	2.9	3.2	3.2	3.1	3.1	3.1	3.2	3.2	3.6
%	0.15%	0.15%	0.16%	0.2%	0.18%	0.17%	0.18%	0.1%	0.2%	0.2%	0.2%	0.2%

Source: own elaboration;

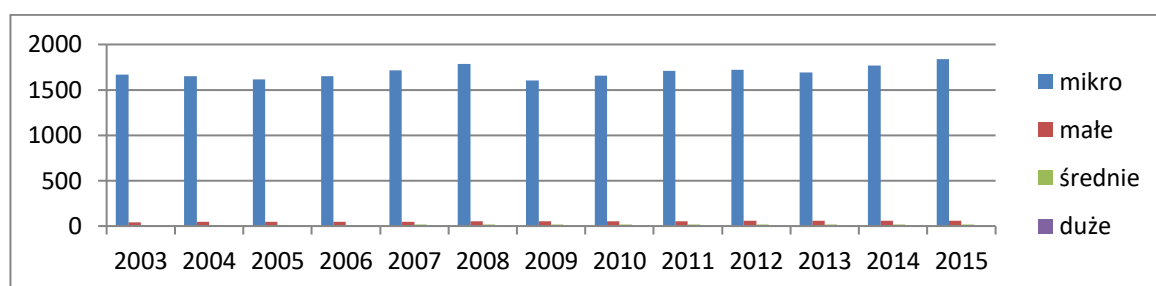


Chart 3. Number of active enterprises in Poland (in thousands)

Source: own elaboration;

In 2015, 1,914,000 enterprises conducted economic activity, 1,905,000 out of which were the firms employing up to 9 workers, which means a 4.3% growth on an annual basis and an 11% growth compared to 2010.

Table 9 - The number of enterprises according to legal norms and size classes in 2015

Number of enterprises	Total	Physical persons	Legal persons
Total	1 914 141	1 720 318	193 823
Micro	1 838 365	1 691 115	147 250
Small	56 713	26 902	29 811
Medium-sized	15 631	2 182	13 449
Large	3 432	119	3 313

Source: <http://stat.gov.pl/obszary-tematyczne/podmioty-gospodarcze-wyniki-finansowe/przedsiębiorstwa-niefinansowe/dzialalnosc-przedsiębiorstw-niefinansowych-w-2015-r-,2,11.html>

In 2015, the group of micro enterprises was dominated by entities that were physical persons (92%, i.e. 1,753,500 entities), while legal persons and organizational entities without legal personality accounted for 8% (151,500 entities). In terms of the type of economic activity conducted, enterprises operating in retail and car repair (25.1%) as well as professional, scientific and technical activity (12.6%) constituted the largest percentage.

4. FACTORS CONSTRAINING SMALL AND MEDIUM-SIZED ENTERPRISES

Globally, the SME sector is perceived as a dynamic and innovative growth driver both in technologically advanced countries and in developing economies. The growth of the SME sector is a significant factor stimulating socio-economic development.

The comparison between small and medium-sized enterprises and large companies reveals a number of fundamental differences. These differences are presented in the table below.

Table 10 - Characteristics of an SME and a large enterprise

Small and medium-sized enterprises	Large enterprises
Running based on the owner's or hired manager's intuition	Application of modern management techniques and methods
Relatively low qualified staff	Highly qualified management
Dominance of operational decisions	Dominance of strategic decisions
Combined management and ownership functions	Management by hired executives
Crucial decisions made by the owner	Decisions made based on expert opinions
Running operations on a small scale with a local scope	Large sales
Independence from other entities	Multiple capital and organizational connections
No access to source of finance on a capital market	Access to a variety of financial market instruments
Relatively small market share	Significant market share
Capital-light growth	Capital intensive investment
Insufficient care about an enterprise's image	Use of advanced image building techniques
Marginal export activity	Substantial export activity
No inclination to associate and form local interest groups	Membership in numerous business organizations
	Running a company based on strategic and operational planning

Source: J. Adamek, Narzędzia wspierania rozwoju małych i średnich przedsiębiorstw, próba klasyfikacji [in] Czas na pieniądź. Zarządzanie Finansami – klasyczne zasady - nowoczesne narzędzia, (ed.) D. Zarzecki, volume II, Wydawnictwo Uniwersytetu Szczecińskiego w Szczecinie, Szczecin 2002, pp. 340-341; M. Nowa, zarządzanie finansami małych przedsiębiorstw, CeDeWu.pl, Warszawa 2014, p.16;

The comparison presented above allows for the identification of factors constraining small and medium-sized enterprises. The factors can be broken down into 9 groups: legal, financial, fiscal, macroeconomic, market-related, administrative, social, information-related, and technological¹³. Legal factors comprise the ambiguity and instability of Polish legislation, ignorance of law, complex public procurement procedures, unfavorable legal regulations (labor law). They cause that small firms often lose to large companies, which have their own legal departments. Financial factors concern, in general, capacity for obtaining bank loans. The problems involve the high costs of bank loans, the obligation of providing collateral, and the substantial time necessary to be granted a decision. Also in this case, large entities find it easier to obtain bank loans, because they have adequate assets that can be offered as collateral and they are capable of incurring the costs involved. Fiscal factors embrace a complicated fiscal system, the ambiguity and numerous interpretations of tax regulations, instability of tax law. Macroeconomic factors involve low demand coming from the disposable income of the majority population. Finally, market-related factors are connected with grey economy and competition from the EU countries. These factors allow for the identification of the barriers that entrepreneurs encounter both in Poland and in the European Union. The barriers can be divided into long-term and short-term. The basic short-term barrier is national legislation. It was indicated by 54% respondents. On the other hand, the most important long-term barrier, identified by 51% of the respondents, is limited demand. The other short-term barriers include: lack of working capital (48%), high capital costs (46%), shortage of qualified staff (33%), exchange rate fluctuations (27%), insufficient number of orders (10%). The other long-term barriers are: national legislation (47%), financing costs (43%), access to new markets (39%), low availability of long-term capital (34%), no R&D funds (8%)¹⁴.

¹³ Por. M. Nowak, Zarządzanie finansami małych przedsiębiorstw, CeDeWu.pl, Warszawa 2014, s.25; Kondycja Małych i średnich przedsiębiorstw u progu 2003 roku, Polska Konferencja Pracodawców prywatnych, Partner badania PBH, PBK SA, 2003;

¹⁴ Cf. Europejski sondaż małych i średnich przedsiębiorstw, Grant Thornton sp.z o.o., 2004, p.53;

5. CONCLUSION

In Poland, the SME sector developed gradually¹⁵:

1. Initial growth in entrepreneurship until 1989.
2. Explosion of entrepreneurship (1989-1994).
3. Market self-regulation after 1995.

During the initial development stage of entrepreneurship the first privately owned enterprises and commercial law companies were established. In the years 1981-1988 the number of private undertakings rose by approx. 53%, while the number of their employees by almost 97%.

The next stage was triggered by the democratic breakthrough (1989) and the introduction of a new economic order with market economy and private ownership.

In the years 1999-2004, there was a noticeable decrease in the share of large and medium-sized enterprises in providing employment. Following Poland's EU accession, the economy started to grow more dynamically, reaching a peak in 2007. In the subsequent years, enterprises were affected by the consequences of the global financial crisis. The negative effects of the crisis had the greatest impact on Poland in 2009. GDP growth rate fell to 1.6%, total consumption went down to 2%, and export collapsed in the absence of investment activity. This negative trend reversed in 2010. On the whole, the economic slowdown in Poland was less severe than in the UE member states and a decrease in internal demand rate was partly counteracted by external demand. This trend changed in 2012, when low levels of internal demand stemming mainly from the breakdown of investment processes, and GDP growth was achieved as a result of increased internal demand. The contribution of the SME sector to GDP in the years 2007-2012 amounted to 47%, with more than 7% coming from small enterprises and approx. 10% from medium-sized firms. The Polish sector of small and medium sized enterprises has strong growth potential. The lowest number of firms per one inhabitant in the EU and its relatively low contribution to the country's GDP indicate that there is still market space for many new entrepreneurs before the economy will become saturated with this type of entities.

The constraints encountered by the entities from the SME sector include:

- the Polish SME sector is smaller than in other EU countries,
- it is dominated by retail and manufacturing firms,
- SMEs are three times as willing to take out a bank loan as large companies,
- small and medium-sized enterprises tend to grow at a rate similar to the one characteristic of large companies,
- SME growth is based on increased productivity,
- SMEs invest more in people than in machinery,
- the most serious barrier to SME growth is tax burden,
- difficult access to financing hampers innovation in SMEs,
- the larger an enterprise grows, the more difficult it becomes to recruit qualified workers,
- the greatest barrier to SME growth is a small scale trap.

In the economy there are a number of adverse trends affecting the sector of small and medium-sized enterprises¹⁶:

- a high liquidation rate and a short lifecycle of enterprises,
- unequal territorial distribution,
- a small share in the manufacturing output of high technology enterprises,
- low innovativeness and competitiveness,
- the dominance of micro entities in the SME sector,
- the small share of medium-sized firms in the ME sector.

¹⁵ Cf. M. Łosiewicz, *Wiedza i kapitał ludzki a konkurencyjność przedsiębiorstwa w skali regionu*, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2009, p.173;

¹⁶ Cf. G. Voss, A. Tokarski, M. Tokarski, *Księgowość w małej i średniej firmie. Uproszczone formy ewidencji*. CeDeWu.pl, Warszawa 2007, p.11;

The major characteristic of market economy, however, is the dominance of private ownership and the significant role of small and medium-sized enterprises in the production of goods and services. Filling the gaps in the market, being flexible and able to adapt to the changes taking place in the environment, small and medium-sized enterprises contribute to building competitiveness¹⁷.

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GEOPOLITICAL CONTEXT OF EURASIAN REGIONALISATION

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ABSTRACT

In this article, we observe with the development of relations within the Eurasian space and between the Eurasian States. We problematise these relations contextually, from the aspect of their functional role in international relations, in the globalised world. The initial premise is that today, the international relations are driven by the global dominance, which significantly coincides with the current needs of globalisation. The dominance, as a value on which an order is established in international relations, faces a challenge in the institutionalisation of regionalisation, which is also a side-process within the process of globalisation, only confined in space and actors. Namely, it threatens global domination. We observe the problem of Eurasian relations phenomenologically. Namely, they are considered in view of their potential impact on the regional geostrategic trends, and on the capacity of leading regional actors. The aim of this article is to analyse primarily if current Eurasian development could in the near future polarise international relations. Findings indicate a new dimension in regionalisation of Eurasia, in the sense of the development of common regional civilisation, which is so far limited to differentiation from the Eurocentric concept. At the moment, though, this novelty is still not sufficiently institutionalised to undermine global institutions. On the functional level, however, this qualitative change in regionalisation of Eurasia, has the capacity to facilitate, not only constraint to domination, but also to the wider compatibility of national regimes, instead of widespread practice to instigate and enforce their change, which would represent an advance with the capacity to lead the international out of the framework of narrow neorealist agenda.

Keywords: *energy security, transport links, culture, security, geostrategic interests*

1. INTRODUCTION

Despite the discourses about common interest and universal values, the relations between people in the World are still within the framework of their total political communities (States). The realist doctrine of international relations rests on some basic assumptions. The key actors in international relations are States, and the defining characteristic of the State is sovereignty (integrity). States are motivated by a drive for power, security and national interest, and behave in their self-interest, while in international relations there is a lack of central authority to regulate relations between them. The self-interest of states and the lack of central authority leads to an unavoidable conflict as a reality, and the order and security can be maintained through alliances. As a result of inherently selfish nature, humans will act to further own interests even to the detriment of others, which leads to conflict, so the key to understanding behaviour of States in international relations is power. International bodies and law are effective if backed by force or sanction. This concept attempts to rationalise a viewpoint of a statesman who must operate in an uncertain and conflicting world. This doctrine provides guidelines for action based on the principles of *realpolitik*, driven by the interest of the survival of the country. Realism, therefore, focuses State as an actor and, consequently, views international politics in the context of States.

On the other hand, in modern conditions of globalisation, universalization, information technologies and interconnectivity, realist concept had to adapt to what appeared to be an anarchic international system. Neorealists find the answer in the concept of domination of one power. This concept aims to provide a rational foundation for the facticity that the political authority of States, with competing interests and probable mercantilist instincts, is overcome by providing the economy based on the fundamental liberal principles and liberal economic practices on a global level (Stevanović; Đurđević, 2015, 17-18). But, in the absence of internationally recognised public goods, the concept of domination is a doctrinal justification of control and governance over States, on a global level (Đurđević; Stevanović, 2015b, 17). Neorealists practically adjust the classic realist doctrine, by focusing that States seek to maximize the wealth, and further develop a discourse that this drive, which prioritises end over means, is the most feasible and objective if the widest liberalism and open markets in the economy are secured on the global value, as a universal value (Đurđević; Stevanović, 2015c, 18).

Realist (neorealist) approach has led to multi-vector foreign policy, giving rise to new groupings and alliances and thus undermining collective security mechanisms. It is hard to ignore that potentially the most powerful is by the large countries of Asia. The development of relations between these countries has a universal context, in the sense that it is happening within globalisation, as a universal process. The problem is that these countries are outside of NATO system and with the potential to constrain the global reach of the West, i.e. with the potential to overcome western dominance at the regional level, but with global effects. These effects concern aspects of life, like energy, transport, economic relations, which deeply determine foreign policies of international actors, and which are thus exposed to above all a realist (neorealist) approach.

2. GEOSTRATEGIC ASPECT OF EURASIAN REGIONALISATION

Since the crisis created in Ukraine, in February 2014, closer economic, political and military binding of Iran, China and Russia is gaining momentum. Iran agreed to nuclear energy cooperation and formally participating in China's project "One Belt, One Road", which the countries gathered in organisation Eurasian Economic Union (EEU, currently uniting Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan) had already agreed to join in 2015.

Currently, the new railroad is being built through Turkmenistan, which is on the route linking the Caspian Sea with Uzbekistan, Eastern Kazakhstan and China. The railroad is already linked to Iran's railway grid and thereby it will enable rail transport between China, Central Asia and the Persian Gulf. Turkmenistan is also building a huge port at Turkmenbashi that would enable potential sea links to Russia. Since April 2016, Russia, Azerbaijan and Iran have been engaged in discussions of building a canal from the Caspian Sea to the Persian Gulf (North-South transport corridor), which if completed would reduce the time of cargo transport from India to Central Asia and Russia and bypass the congested and expensive Suez Canal (Shoaib, 2016; Engdahl, 2016). The closer binding includes a concern for security issues, like Syrian and other sub-regional crisis. Three pivotal states of Eurasia have the strategic capacity to develop a security triangle (Woodley, 2015, 199-200). Analyses indicate that Eurasia has the characteristics of a specific geo-cultural space. Hence, the regional associations (eg. Eurasian Economic Union, Shanghai Cooperation Organization, or even BRICS) can be seen in the context that the structure introduced three huge Eurasian peripheral countries India, China and Russia, which significantly territorially frames the Eurasian space. In this context, the idea of Eurasian regionalization has ground in in the concept of civilizational structure, other than the European civilisation, to which geopolitical connotations can be attached (Kundu, 2016). There is an almost universal recognition in the doctrine that Eurasia is the largest geopolitical challenge facing global dominance. As Brzezinski identified, "...a power that dominates

Eurasia would control two of the world's three most advanced and economically productive regions. A mere glance at the map also suggests that control over Eurasia would almost automatically entail Africa's subordination, rendering the Western Hemisphere and Oceania (Australia) geopolitically peripheral to the world's central continent. About 75 percent of the world's people live in Eurasia, and most of the world's physical wealth is there as well, both in its enterprises and underneath its soil. Eurasia accounts for about three-fourths of the world's known energy resources." (Brzezinski, 1997, 31)

The unstable situation in Ukraine has undermined mostly the geostrategic position of Russia, related its security on the western borders. Russia cannot achieve realistic strategic stability without Ukraine as a partner State. In that context, the development and deepening of the strategic partnership of Russia with China can also be viewed as favourable for Russia's geostrategic relief to the east (Andreev, 2012). But, in the world of monopolar domination, this poses a challenge. This challenge is amplified by the failure of concepts which have underestimated Russia's potential, and most of all the reach of the US-imposed economic sanctions. Namely, not only has Russia's recession been shallower than expected, but the economy is expected to return to growth in 2017 (International Monetary Fund, 2017: 7).

Much of the geopolitical turmoil in the Central Asia and the Caspian Sea sub-regions seems to be dictated by the contemplated energy projects. Turkey's possible pivot towards Russia, with a risk of its distancing from NATO, due to the pipeline project envisioned as a main gas supply route to Europe ("South Stream"), in view of many seems as the obvious reason for the coup attempt by the Gulenists, formerly allied with Erdogan and his party (AKP), and now seeking a regime change, before Turkish second thoughts on NATO. However Turkey and Russia are, through Byzantine tradition, ancient allies and thus Turkey's NATO alliance seems unnatural (Dyer, 2016).

2.1. Eurasian Economic Union as the manifestation of regionalisation of Eurasia

In August 2016, Russia officially welcomed the possible creation of a zone of free trade between Iran and the EEU (Russia Today, 2016). Besides, Russia also supports Iran's pursuit of full membership in the Shanghai Cooperation Organization (SCO) the military-political bloc comprised of Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The efforts are in progress towards achieving a free trade agreement between India and the EEU. The contention seems to India's ambition towards a comprehensive economic partnership agreement, covering goods, investment and services, while the smaller members of the EEU, as the economically weaker side, would like to restrict it only to goods (Kamalakaran, 2016). In October 2016 came into force on the Free Trade Agreement between the EEU and Vietnam (Free Trade Agreement between the Eurasian Economic Union and Vietnam, 2016).

In November 2016, the Mongolian ambassador to Russia conveyed the interest of Mongolia to join the membership of the EEU (Chintushig, 2016). On the other side, China's Ambassador to Russia conveyed a stance that China will support every activity towards compatibility with the EEU, and is ready to consider "cooperation on mutual preferential treatment in the financial sector, maintain active bilateral and regional cooperation with members of the EEU", "to boost the amounts and develop the sphere of settlements in national currencies and respective financial products" and "to create more industrial clusters and zones of trade and economic cooperation with EEU" (Work on FTA between EAEU and India to begin in 2017).

For the European viewpoint, the key for Eurasian regionalisation is Azerbaijan. For this country, the most naturally and geographically suitable environment is the EEU. The biggest obstacle is the local oligarchs who control the current constellation of monopolistic trade with the EU as a major trading partner. Another obstacle is the fear that the EEU could be an instrument of the hegemony of Russia, ignoring that the EU instrument of domination of the US and NATO (Valiyev, 2016).

3. THE IMPACT OF EURASIAN REGIONALISATION

3.1 The impact on the constellation of power

At the end of the 20th century, American neorealist doctrine (neoconservatives and neoliberals) openly estimated that the 21st century will be the "American Century". The conceptualisation of this estimate logically implies the acceptance of two premises: firstly, that in order to achieve this aim conflict any other competing power is acceptable, secondly, that an acceptable means in that context is war. The first State to be opposed to this concept is Russia, while China, though now financially stronger than the US, does not have the capacity of power exposed in the so-called nuclear triad. Therefore, Russia must be broken first, while others can be conquered. Since liberal-capitalist Russia can no longer be represented as an ideological enemy, it is necessary to conceptualise new ground for conflict, no longer ideologically based, but instead personified, through targeting on the Russian president Vladimir Putin (Haas, 2012, 40). A majority of the public opinion does not know what is going on, since a huge system of manipulation has been created (Aguilar; Teran, 2015, 165-171; Đurđević; Stevanović, 2015d, 12).

By maintaining the discourse about the necessity of conflict, and conceptually shaping the perception of the public in that context, disregarding the phenomenological aspect, the mechanism of global dominance is displaying an authoritarian characteristic. Additionally, the information age has enabled mass-scale changes in the perception of generations, so that true and false become irrelevant. Today, journalists themselves are mainly informed through CNN and other western mainstream media (Newman, 2009, 26), whose objectivity, and even truthfulness, are currently seriously questioned. Given that there is no economic growth, the standard of living in the West is on the decline. It seems that imposing of unconditional domination has become a global security challenge. Currently, there are already three points of conflict and tension have been created: Ukrainian, Baltic and Syrian. The upcoming development on the global scene will be determined by, above all, the tempo of the relative economic decline of the global financial order and the internal difficulties of the US, as the global superpower (Stratfor, 2016; Lachmann, 2014, 14).

3.2 The Impact on the Black Sea subregion

The geostrategic importance of the Black Sea follows the significance of its geographical locations, in two aspects. On the one hand, it is in line with the supply of oil and gas from the Caspian region to Turkey, Eastern and Central Europe and the Mediterranean countries, whereby the Black Sea has reserves of hydrocarbons. On the other hand, it is the area of operations against terrorism in relation to the new era of the "war on terror", in what context it is in terms of security associated with the Caspian subregion. Most of the countries of the Black Sea subregion are related to Russia for energy supply, while Azerbaijan is a more suitable supplier for the Mediterranean countries (Pamir, 2015, 134-137).

On the geopolitical level, the Black Sea is located between the two axes of strategic importance: firstly, of strategic military importance for NATO is the space between the Black Sea and the Mediterranean, which is endangered mainly by the cross-border risks; and secondly, an area of importance for transit of energy resources from Central Asia is the space between the Black Sea, Caucasus and the Caspian Sea, which is affected by the sub-regional instability (Onetiu, 2012, 241). In the mentioned context, two events in the Black Sea subregion have provided the elements for undermining collective security. Namely, the membership of Romania and Bulgaria in NATO, on the one hand, and the annexation of Crimea into Russia, have openly collided the strategic interests of NATO versus the vital interests of the Russian Federation (Sanders, 2016, 3).

3.3 The Impact on the conceptualisation of European space

During the negotiations between the then superpowers concerning the reunification of Germany, the US Secretary of State, James Baker, has on February 9, 1990 verbally promised that this process will take place without "expanding the jurisdiction of the NATO forces even an inch to the east", since the Soviet Union agrees with the membership of Germany in NATO" (Zelikow; Rice, 1997, 183). On that matter, the president of the Soviet Union, Michael Gorbachev has explicitly concluded that "any (further) extension of the zone of NATO is unacceptable". In this context, today, the partnership between the EU and EEU could provide the potential capacity for the geopolitical and geoeconomic composition of the Eurasian continent with a global effect. Namely, from the aspect of the balance of power in the international system, the global hegemony of the United States would be undermined by the "unification" of Europe with Eurasian powers, and primarily Russia, because it would be a counterweight to the currently dominant global force (Johansson, 2016, 101). If the regionalization of Asia is viewed from the sub-regional aspect, a key geostrategic position has Turkey (Manoli, 2016, 127). On the other hand, the EU should, on the spatial level, achieve several objectives of a strategic nature, by 2020. When viewed in the context of relationships with the environment, into such would fall the development of opportunities for the production of gas hydraulic refraction in some European countries, the completion of strategic corridors for the transport of gas, Initial operations of the use of gas from the Black Sea, etc., each of which currently seems faced with a greater or lesser uncertainty (Papatulica, 2015, 471).

The development of regions of objective importance, in terms of global ambition, has in the past period been perceived through the concept of the theory of "zero-sum game". In this regard indicate discourses regionalization. the idea of a Euro-American neoliberal establishment of an agreement on the Trans-Pacific Partnership agreements was perceived as the United States' new approach to the world power with the EU 'in its pocket'. These calculations could affect EU-EEU cooperation. In that context, can be viewed Russia's new 'pivot to Asia', including synergies between China's 'One Belt One Road' initiative, as well as considering an 'economic continental partnership agreement' between the EEU and the Shanghai Cooperation Organization. Many point to the EU's uncertain future as another variable in deciding on future cooperation. Consequently, it might be better for the EEU to develop relations with the European countries, not the EU administration. While cooperation between the EEU and EU is broadly supported, there are clear differences in the scope of parallel bilateral relations pursued with the EU, the nature of their WTO commitments, or indeed, the core vision as to what the EEU ought to be. The EEU has a commercial reality. EU businesses cross EEU customs borders and interact with EEU rules and institutions. Relations continue to be governed by an outdated framework, with disputes on 'trade irritants' destined for the WTO. Bilateral relations with the EEU member states need to be developed, and their interests should not be marginalised, so it will be beneficial to maintain relations with the EEU (Dragneva-Lewers; Wolczuk, 2015: 3).

The EEU was established amid international conflict and divisive geopolitics. The Ukraine conflict encapsulated the dangers of tensions between rival regional projects, opening three main geopolitical challenges: (1) the international system could break into "geopolitical zones", with a possibility for the entire post-Soviet space to become an independent centre for global development, rather than the outskirts of Europe and Asia; (2) the EEU could be a possible mechanism to prevent neighbours being absorbed into rival regional alliances (3) EEU has the potential of the core of a wider regional grouping (International Crisis Group, 2016, 4-5). The ECU was inspired by the EU project, but it was not set up as an international organization, but as a treaty-based regime, which can be seen as a realistic attempt to delineate spheres of influence. (Vicari, 2016)

4. CONCLUSION

The findings can be viewed as a function of the elements influencing the opportunities in Eurasia. This function includes four aspects which effect the global geopolitics, i.e. the powerplay on the international level. Firstly, the economic interconnecting in the Asian part of Eurasia is an obvious economic factor. Secondly, interconnecting in the technological sphere and cultural life represent a civilisational factor. Thirdly, functionalisation of corridors and spatial links leads to a more exponential role of the geographic factor. Fourthly, the interconnection of States with the majority of world's population and significant capacities is potentially a factor for the new balance of power on regional, and to an extent on the global level. In the context of regionalisation, as a trend within globalisation, it seems that Eurasian regionalisation is a process with internal dynamics and thus hardly preventable through outside domination. It seems that it's further institutionalisation could lead to two consequences with a global effect. On the one side, it could provide for the stability of regimes, involved in this regionalisation, from the outside interference, and on the other, it could provide the opportunity for individual adaptation of States to the dictates of universalisation, leading to confining of influence of (neo)realist agenda on international relations.

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(IR)RESPONSIBLE LENDING AND PERSONAL INDEBTEDNESS: CONSUMER CREDIT MARKETING

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ABSTRACT

The problem of personal over-indebtedness is escalating in the last decade in spite of the various regulatory changes being imposed both on the level of European Union and within national regulations. Most of the research and policy have been directed towards mitigation of irresponsible borrowing. Considering the disappointing results of such policies (ever growing number of over-indebted households), this research points to the neglected problem of irresponsible lending practices of the financial industry actors. This direction of research is additionally supported by previous research findings: consumers perceive banking sector as responsible for debt problem, and believe that they act unethically when promoting the easy access to credit. Responsible lending practices span across broad range of lenders' activities: from information disclosure in pre-contractual stage, creditworthiness assessment to impartial counseling in case of difficulties in repaying debt, just to name a few. This research is focused on the problem of adequate information provision to consumers through marketing activities of principal credit providers. Prior to the field research, desk research of the existing regulation on information disclosure in the advertisement stage of the consumer credit is carried out. The next method applied is content analysis of advertising tools in Croatian financial sector and comparison of the results within European Union. Analysis entails two aspects of advertising content compliance with national legislation and European consumer credit directive (CCD): first, quantity of information disclosed and second, quality of information disclosed.

Due to the small credit market and scarce number of specialist lenders the analysis is contained to the banking sector which covers vast majority of consumer credit agreements. Results show that compliance of bank marketing efforts, both quantitative and qualitative, with the information requirements at the advertisement stage is extremely low. That gives evidence to the claim that banks engage in irresponsible lending practices and therefore show very low level of corporate social responsibility. Results also indicate that adequate supervision of the analyzed bank lending practices by responsible regulatory bodies is completely missing.

Keywords: *Bank Marketing, Personal Over-indebtedness, Responsible Lending*

1. INTRODUCTION

Banks as financial institutions are continuously involved in growing problem of personal indebtedness by aggressive bank marketing in the area of bank products supply. The goal of this paper is to present existence of (ir)responsible lending on example of consumer credit advertising. Evidence about personal indebtedness trends is presented and the impact of irresponsible lending practices through aggressive bank marketing is analyzed. Empirical part of research is focused on information content of various types of advertisements in the field of personal loans and credit cards and their compliance with EU legal framework. Croatian position among EU Countries from the quantitative and the qualitative compliance aspect is determined and evaluated.

2. THE ROLE OF BANKS IN THE GROWING PROBLEM OF PERSONAL INDEBTEDNESS

The responsible behavior of banks is a feature that enables them to conduct long-term sustainable business. Research evidence (Ennew, Sekhon, 2015) shows that key drivers of such behavior are integrity, consistency, benevolence, expertise and competence. Business practices stemming from such behavior enable consumers to confidently make complex financial decisions knowing that banks are concerned about their interests and are trustworthy in preventing adverse course of events (e.g. default). But the data about trust in universal banks is deteriorating: in the 1970s 60% of Americans trusted big banks “a great deal”, and by 2012 only 21% did so (Hurley, Gong, Waqar, 2015). As the matter of fact Australian research suggests that consumers hold banks responsible for the debt problems and believe that they behave unethically in promoting the easy availability of credit. Consumers also think that banks need to elevate their ethical standards since their decisions greatly affect livelihoods of their customers (Fear, O’Brien, 2009).

Another important aspect that should lead to transfer of responsibility for personal indebtedness to banks founded in research (Puttonen, 2015) considers mental shortcuts that consumers use when dealing with complex decision-making in finances. These include: simplification of financial decision data due to limited cognitive capacity for complex computations, non-objectiveness and irrationality due to emotionally guided decisions, and uninformed decisions due to insufficient consumer knowledge and motivation. Banks should be also motivated to behave responsibly since contributing to the rising social problem of over-indebtedness is in contrast to their publicly strongly proclaimed corporate social responsibility agenda. Research also adds evidence on strong positive relationship between corporate social responsibility of banks and their financial performance (McDonald, 2015). Unfortunately, other research (Mulki, 2015) demonstrates that there is no empirical evidence that ethics in banking helps improve their financial performance. Therefore it can be seen that there are inconsistencies in research results, mainly attributed to adverse impact of employee’s performance-linked compensation which is a strong driver for their unethical behavior.

Banks are the most prominent institutions of the whole financial system and are principal agents in creation of the credit market supply. Changing circumstances on the financial market (deregulation and ever-rising possibilities given by sophisticated, industry specific information technologies) led to increased competition and credit availability. Banks try to manage change, achieve growth and profitability regardless of the negative outcomes in the household sector – exponential growth of indebtedness. In his research Ramsey (2012) labeled over-indebtedness as a significant social and economic issue that disproportionately affects lower income groups (for example in 2010 majority of French debtors had net revenues less than the minimum wage). He concludes that the law of over-indebtedness may symbolize the breakdown of social and family sources of solidarity and the rise in inequality associated with neoliberalism. The data supporting the troublesome trends described above is presented in the next section.

2.1. Personal indebtedness trends: evidence worldwide

The problem of insolvent households has spread around the world. There are the measurement of different aspects of this problem area is not uniform, and it varies mostly due to the different regulatory framework and definitions of over-indebtedness. Nevertheless, the trend of significant increase in personal indebtedness is discernable from them all.

In the USA the personal bankruptcy rate has increased three times in twenty years (Livshits, 2015, 597). The trend has lost some momentum due to the crisis resolution in the past four years. Total number of bankruptcy filings in 2016 was 794.960 with share of non-business (personal) filings of 97% (United States Courts, 2017). Driven by favorable loan conditions and aspiration to maintain living standard American middle class had increased borrowing despite

non increased income (Attali, 2009). In the United Kingdom individual bankruptcies increased from about 9.000 in 1989 (Ramsey, 2012, 237) to about 16.000 in 2015 (Gov.UK, 2017), the share of consumer bankruptcies also rose from 39% in 1990 (Ramsey, 2012, 237) to 84% in 2015 (Gov.UK, 2017). This can be attributed to the fact that number of consumer credit in the UK had doubled since 1980s. Data from France reflects similar situation: the number of applications to the over-indebtedness commissions (specific French government institutions) rose from 1,6 per thousand capita in 1991 to 3,3 per thousand capita in 2015 (Banque de France, 2016).

The most frequently used metric of the household levels of indebtedness is consumer credit to disposable income. Data (Vandone, 2009) shows broad differences between EU countries: from 25,5% in the UK to 3,6% in Slovakia. More developed countries have above average ratio (e.g. Ireland 19,9%, Denmark 15,6%, Germany 15,1%, Spain 14,9%, Austria 14,5%), whereas Eastern European countries show extreme consumer credit growth rates due to still limited diffusion of consumer credit (e.g. Lithuania 424%, Estonia 285%, Latvia 165%, Hungary 156%, Slovakia 119%). Overall Euro area consumer credit almost doubled in the past twenty years: from 360 bn EUR in 1997 to 617 bn EUR in 2017 (Trading Economics, 2017). Levels of non-performing household loans show significant increase (Kempson, 2015, 142). In 2007 all EU countries were below 5% whereas by 2013 ten countries were above 10% share of non-performing household loans. Those were either countries with immature credit market (Romania, Bulgaria, Slovenia, Lithuania and Croatia) or countries hit hard by recession (Greece, Cyprus, Ireland, Portugal and Italy).

Croatian data show similar patterns. The structure of loan allocation by banks has changed in favor of household debt and on account of corporate debt. In 1994 household loans had share of 28,8% (Družić, 2001), and in 2015 45,6% (Croatian National Bank, 2016a). Such shift insures growth and development banking business which causes a significant increase of personal debt. In the similar period (1981-2011) population fell 7% (Croatian Bureau of Statistics, 2016) causing even stronger rise of per capita indebtedness. Non-performing household loans share in total loans has been steadily rising from 4% in 2008 to 12% in 2015 (Croatian National Bank, 2016c). Most notable expression of personal over-indebtedness in Croatia can be seen in significant rise of debt on personal frozen accounts (specific Croatian phenomenon depicting heavily indebted individuals): from 16,31 bn kuna in 2012 to 41,65 bn kuna in 2017 (more than 2,5 times), majority - 57% of their debt is to the financial sector. Most of the individuals with frozen accounts (81%) have been in that situation continuously for longer than one year. In February 2017 there were more than 327.000 persons with frozen accounts and they represent 11% of working-age population (Financial Agency, 2017). Described trends in Croatia fit into the wider spread trends of rising personal indebtedness.

The link between advertising, credit and consumption has been empirically examined on US aggregate time series data (Lamdin, 2008) and results show that variables: advertising and credit can be interpreted as causing consumption. These important results and data presented justify focus of this research to be directed towards bank marketing and its link to indebtedness.

2.2. Aggressive bank marketing: impact of irresponsible lending practices on personal debt

In explanation of over-indebtedness issues much of the previous research applies individualistic approach with psychological underpinnings, i.e. sees reckless borrowing and consumerism as main drivers of the problem. The recommendations and solutions are mainly suggested in the area of financial literacy empowerment, with financial sector out of the research agenda. The recommendations are not put in practice which is backed with data on very uneven exposure of consumers to financial information: US financial industry marketing budget is 25 times larger than financial education budget (670 million vs 17 billion dollars annually) (CFPB, 2013).

Action taken so far has been directed towards bailing out banks and stabilizing the economy rather than helping the individual consumer (Micklitz, 2015, 231). Even though the problem has been officially recognized by all institutions, research (Domurath, 2015) argues that in EU legal order; specifically consumer law refers to responsible lending only in a narrow way, therefore missing the opportunity to contribute to the prevention of personal over-indebtedness. Narrow concept entails only (Vandone, 2009, 76) information disclosure and transparency, appropriate creditworthiness and total exposure assessment. Broader concept would necessarily include (Domurath, 2015) lender liability, financial product regulation, impartial advisory services and safe financial inclusion. It is only logical that more informed and more competent agent (lender / bank) should be attributed with more decisive, but transparent and fair position in the lending process (*ex ante* and *ex post*). Consequently, it is the lender to whom also more direct responsibility for lending outcomes should be transferred to. Mainstream research community (Vandone, 2009) considers this shift to be unrealistic due to the nature of financial intermediaries since they evaluate the impact that a loan may have on their balance sheets, but do not consider possible negative externalities generated from granting of a loan on households' well-being. Such conceptualization of responsible lending practices implies *status quo*. Here the broader approach is taken and is considered as necessary in attempt to thoroughly redirect regulation efforts towards financial sector and substantially change policy agenda when coping with problem of personal over-indebtedness.

Banking industry deregulation and increase competition in credit markets had an adverse effect on consumer default: expansion of the availability of credit leads to the expansion of the supply of consumer credit and rising personal bankruptcy rates (Dick and Lehnert, 2010). In order to increase significantly profits and market share banking industry increased spending on marketing activities (Mullineaux and Pyles, 2010). As a routine practice in financial sector credit limit has been freely used as a tactical marketing tool for years now. For example when credit card users with good payment record reach their limit, their credit line is typically increased (Punch, 1992) which causes a significant rise in debt (Gross and Souleles, 2002). This makes credit limit an aggressive marketing tool rather than a measure of credibility. The practice of telling consumers that they "deserve" increases in their credit limits are not only non-informative but might also mislead consumers into believing that their projected future net worth has actually increased.

Marketing content can be shown as a powerful tool of future financial engagements of consumers and therefore of special interest for banks trying to add more value to their services and increase profits. By development and improvement of consumer experience and different advertisements and promotion techniques follow the innovative way of thinking and show the ideas in the content. A scientific direct mail marketing field experiment conducted in South Africa (Bertrand et al., 2010) tried to determine how much or how various marketing content techniques affect demand for credit. The results showed that specific marketing content oriented to consumers, in this case a photo of an attractive woman, increases consumer loan demand by about as much as a 25% reduction in the interest rate. Therefore, it has been proven that effective marketing content is as powerful as the interest rate level in deciding upon getting a credit (Filipović, Škalamera-Alilović, Štambuk, 2016). These results show that banking advertising and promotion costs are successful tools of boosting consumption and consequently an active agent of the worsening problem of personal over-indebtedness worldwide.

3. IRRESPONSIBLE BANK ADVERTISING: CROATIA AND EU

Research on consumer attitudes to over-lending indicates (Fear, O'Brien, 2009, 6) that advertising encourages people to spend more than they earn (79% of respondents agreed) and that banks are too willing to lend people more than they can afford to repay (73% of respondents agreed) which forms a strong belief that lenders and regulators, rather than individual

consumers, are responsible for the debt situation. EU regulator, aware of worrisome trends and of important role of financial institutions and their lending practices that boost instead mitigate that problem, has designed consumer protection framework incorporated in Consumer Credit Directive (CCD) (European Commission, 2008). Regulation of advertising information content is covered in Article 4. Coverage of this article is very narrow because it excludes any advertising not including “figures relating to the cost of credit”. At first Croatian regulator when implementing CCD into national legislation just copied CCD requirements (Zakon o potrošačkom kreditiranju, 2009). But, three years later, obviously aware of the loophole strategically used by banks to circumvent disclosure of standard information, opted for more stringent framework and applied obligatory standard information for all advertisements regardless of whether they contain figures on the cost of credit or not (Zakon o izmjenama i dopunama Zakona o potrošačkom kreditiranju, 2012).

In 2013 European Commission received Final report on the Study on the Functioning of the Consumer Credit Market in Europe which they ordered from Ipsos and London Economics. The results of this Study indicated very poor level of CCD implementation across EU. Research presented in this paper adds Croatian data and compares it with other EU countries.

The main hypothesis is that even though the regulation is more stringent, due to the lack of institutional capacity in regulatory implementation and control, irresponsible lending measured by aggressive bank advertising (non-compliant with the law) is more prevalent in Croatia than in other EU countries.

Two auxiliary hypotheses are developed: (1) Compliance of Croatian bank advertisements with the set of information requirements (measured by CCD compliance index) is worse compared to the other EU countries; and (2) Quality of Croatian bank advertisements (measured by advertisements performance index) is lower compared to the other EU countries.

3.1. Sample and methodology

During the period of one month all of the available banking advertising materials covering personal loans and credit cards in Croatia were gathered. These field activities resulted in a sample of 53 advertisements. Comparison with the EU results is based on the data available from the research performed by Ipsos and London Economics (2013), which did not include Croatia. The structure of the Croatian sample is presented in the following table.

Table 1: Croatian sample of bank advertisements (Authors' calculations)

Type of advertisement	Total	Personal loan	Credit card
Radio and TV	8	8	
Newspapers and magazines	1	1	
Flyers	25	17	8
Posters	3	3	
Other non-web (display, mail)	6	6	
Web	10	6	4
Total	53	41	12

The structure of the sample reveals that banking sector advertising efforts are more strongly directed toward personal loan segment (77%) than to credit card segment (23%). Flyers and web instruments are more heavily represented as these advertising instruments do not largely depend on marketing campaigns schedule and are always readily available. The sample

included advertising materials from nine Croatian banks¹. Credit portfolio of banks included (221,7 bn kuna) represents vast majority (88%) of total loan market in Croatia (251,2 bn kuna) (Croatian National Bank, 2016a, 2016b). Croatian sample included only banks since specialized lenders market is very underdeveloped and represents an insignificant part of total loan market (e.g. value of leasing market in 2015 is only 3,6 bn kuna (HANFA, 2016)).

Methodology for this study has been aligned with Ipsos and London Economics (2013) in order to be able to perform benchmarking of the Croatian results with the other 27 EU member states. The method of composite index has been applied on both research questions. First, the CCD compliance index has been calculated based as the ratio of the number of criteria per advertisement fulfilled to number of criteria prescribed (8 for personal loan, and 6 for credit card advertisements). Second, the performance index is based on the assessment carried out by researchers whether the advertisement information is or is not clear, prominent and concise, as prescribed by CCD. The scores for 3 quality dimensions and 2 loan types were aggregated and averaged to form unitary performance index. Limitation of the benchmarking exercise reflects the fact that quality assessment as subjective measure has been done by different experts so that Croatian results may be downward or upward biased compared to EU results due to that fact.

3.2. Results and discussion

The first set of results refers to the research question of advertisement information compliance with the standard information framework set out in Article 4 of CCD. Information requirements differ somewhat according to the type of loan: there are 8 obligatory criteria for personal loan and 6 for credit card loan. The results of compliance by information content criteria for Croatian sample are represented in Table 2.

Table 2: CCD compliance by information content (Authors' calculations)

Information requirement	Personal loan		Credit card	
	Frequency	Percentage	Frequency	Percentage
Borrowing rate	17	41	0	0
Rate fixed or variable	22	54	0	0
Other charges	17	41	6	50
Total credit amount	23	56	2	17
APR	17	41	0	0
Duration of agreement	15	37	x	x
Total amount payable	13	32	0	0
Number of instalments	6	15	x	x

The results show that overall compliance is very low and considerably lower for credit card than for personal loan advertisements. Only 3 criteria are disclosed in 50% or more advertisements (whether the rate is fixed or variable – 54%, and total credit amount – 56% are present in personal loan advertisements and information on other charges are present in 50% of credit card advertisements). The other noticeable result is that 3 out of 6 financial information required are not present in any of the credit card advertisements.

Disaggregating of the results according to the number of the criteria met per advertisement reveals another problematic aspect in distribution of the results, shown in Table 3.

¹ Zagrebačka bank, Privredna bank, Erste bank, Reiffeisen bank, Addiko bank, Splitska bank, HPB bank, SBER bank and Podravska bank.

Table 3: CCD compliance by the number of criteria met (Authors' calculations)

Number of information criteria met	Personal loan		Credit card	
	Frequency	Percentage	Frequency	Percentage
8	3	7	x	x
7	5	12	x	x
6	7	17	0	0
5	2	5	0	0
4	0	0	0	0
3	1	2	0	0
2	6	15	2	17
1	4	10	4	33
0	13	32	6	50

The distribution of the disclosed information per advertisement is not normal, i.e. the results cluster around upper and lower end (personal loan) and lower end only (credit card). That means that average data in previous table should further be explained. Namely, 36% of personal loan advertisements disclose relatively high number of information (8, 7, 6), and 37% relatively low number of information (2, 1, 0). Therefore, relatively higher averages in Table 2 for personal loan are due to the fact that there are several highly compliant advertisements which pull the average results up.

The next Table shows the compliance results by the type of media used.

Table 4: CCD compliance by the type of media (Authors' calculations)

Type of media	Compliance index
Radio and TV	5
Newspapers and magazines	0
Flyers	50
Posters	33
Other non-web (display, mail)	6
Web	35
Overall	33

Flyers score the best (even though with the relatively low result of only 50% compliance) which can be easily explained by the format that allows presenting large quantity of information and are always readily available in every bank. Still, CCD regulation does not differentiate media types in any way and therefore the same requirements apply to all types of media. The most striking result is extremely low compliance of 5% on radio and TV advertisements, bearing in mind that especially TV commercials reach far greater number of potential consumers than any other type of media. Overall CCD compliance index for personal loan advertisements is calculated for Croatia and compared with the results of other EU countries (Chart 1).

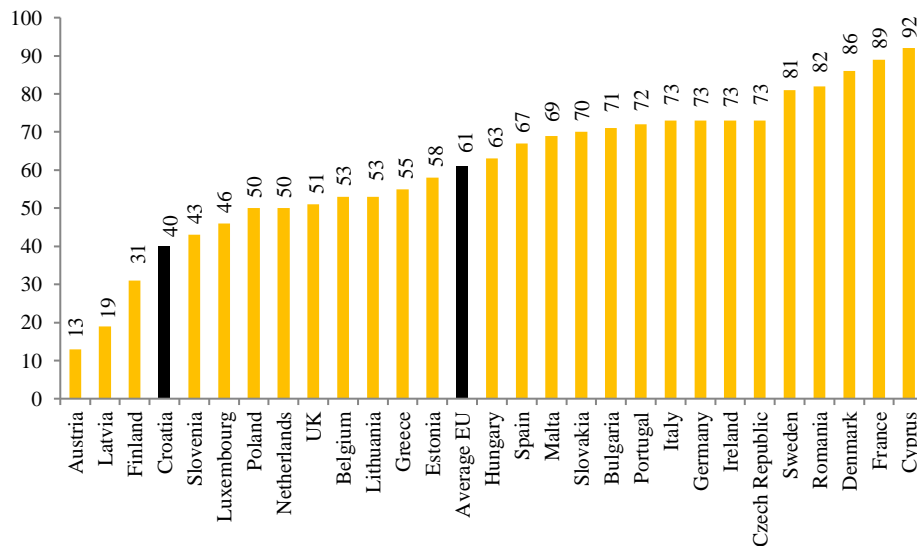


Chart 1: Personal loans advertisements CCD compliance index
 (Authors' calculations based on research data and data from Ipsos and London Economics, 2013)

Data presented above shows poor CCD compliance across EU. The average score is just 61% of necessary information content disclosure in personal loan advertisements. The results are widely spread apart and vary from extremely low 13% in Austria to almost full compliance (92%) in Cyprus. No EU country fully complies with CCD advertisement requirements regarding personal loans. Croatian result (40%) ranks 25/28 and scores 21 percentage points below EU average, and can be therefore qualified absolutely and relatively very poor.

Credit cards advertisements CCD compliance data is presented by following chart.

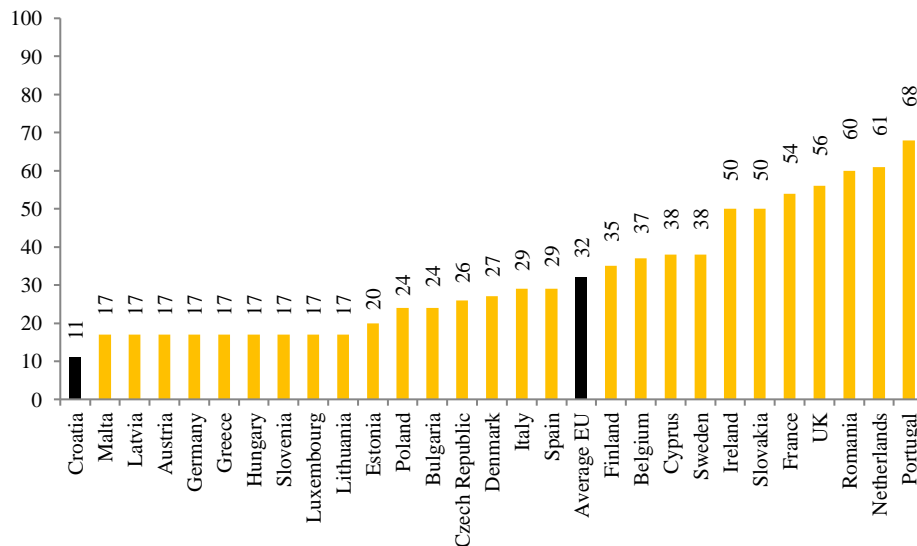


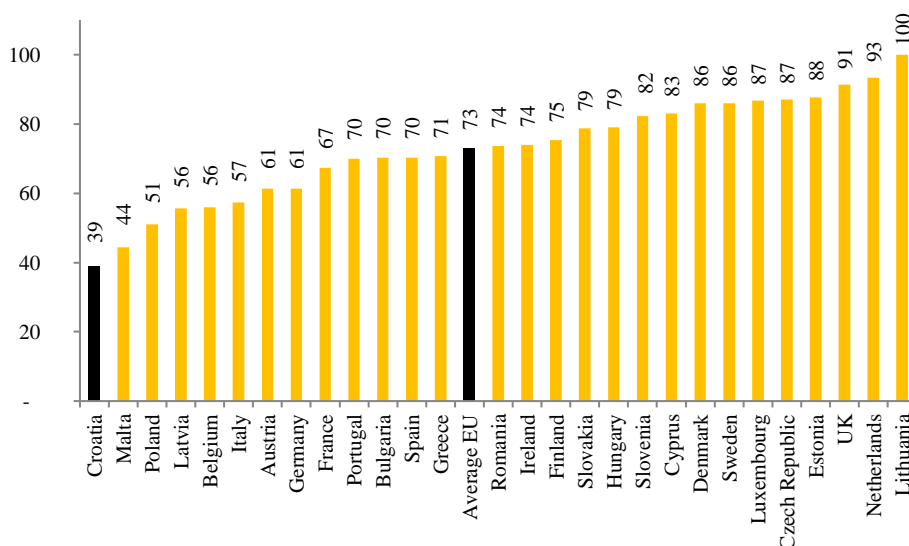
Chart 2: Credit cards advertisements CCD compliance index
 (Authors' calculations based on research data and data from Ipsos and London Economics, 2013)

Overall results are significantly worse for credit cards, even though the absolute number of information disclosure requirements for credit cards (6) is lower than for personal loans (8). The average EU credit card compliance is 32% which is almost two times lower than personal

loans index. Highest scoring country is Portugal with an index of only 68%. Croatia is positioned at the bottom of the list with the worst result: on average in Croatian credit card advertisements almost 90% of the required information content is missing.

EU average for both loan types is 46%, and Croatia's 25%. This leads to the conclusion that the goal of consumer credit protection in the area of advertising is far from being soon achieved. The results of this research clearly detect that problem area of consumer protection in financial sector lies not in legislative phase, but in implementation control and sanction phase of regulation. Therefore the authors are of the opinion that the adequate solution would not be to pursue this form of regulation since it brought very modest results since its inception (2008). Authors rather suggest that in circumstances of heavy and growing societal problem of personal over indebtedness, complete ban of advertising in financial sector would be a measure easier to implement and control.

The second set of results refers to the three required qualitative dimensions of consumer credit advertising: clarity, prominence and conciseness. All advertisements were scored with "yes or no" meaning either the information was clear, prominent and concise, or not. Each of the quality dimensions is assessed separately and index is formed as an average of the scores of each dimension. Performance index therefore measures the overall quality of consumer credit advertisements on the scale from zero to one hundred. In case of Croatia 15% of advertisements were assessed as clear, 64% as prominent and 38% as concise. Performance index is the average of all three dimensions results, and can be interpreted as quality performance index 39. The following chart benchmarks Croatia to the rest of EU countries.



*Chart 3: Advertisements performance index
 (Authors' calculations based on research data and
 data from Ipsos and London Economics, 2013)*

In the interpretation of the above results it is certain that they are biased upwards by the mere fact that assessment was done by experts who are financially highly literate, so if the assessments were done by average consumer the scores would be lower. This is the reason why above results should be interpreted only in relative terms. Croatia score is the worst, and Lithuania score is the best. The spread between the minimum and maximum of the performance index is smaller than of the compliance index.

Spearman's rank correlation coefficients were calculated to determine if the observed indexes within a sample of countries show consistent patterns. The results show that there is moderate level of relation in countries' rank in personal loan and credit card compliance index (0,45), low level of rank relation between credit card compliance index and performance index (0,29) and that there is no relation between personal loan compliance index and performance index (0,06) of EU countries. The conclusion drawn is that the phenomena researched vary considerably between and within EU countries. But specifically Croatia's results are consistently at the low end: credit card compliance index and performance index being the worst in the EU, and personal loan compliance index positioned on the 25th place.

4. CONCLUSION

Research results undoubtedly present reckless lending practices in bank advertising of personal credit instruments. Even the narrowly conceptualized regulation of consumer credit protection is poorly implemented and irresponsible behavior of banks is obvious. Conclusion can be drawn that little has been done in allocating responsibility for indebtedness to the lender.

The upcoming research efforts should be directed to further develop more rigorous attempts to model the relationship between personal over-indebtedness and banking industry operations, in order to provide evidence for significant regulator policy changes. Regulation changes that are here advocated for are: more specific regulation about banking industry operating procedures to align them with broader concept of responsible lending practices. EU and national regulators should engage more in protection of consumers in financial industry; even consider extreme measures such as banning of bank marketing with intention of pursuing more aggressive and efficient ways in preventing and diminishing dangerous levels of personal indebtedness.

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IS SEASONALITY OF EMPLOYMENT INFLUENCED BY THE SEASONALITY OF PRODUCTION? CASE STUDY FOR THE EU STATES

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ABSTRACT

The following study aims at comparing seasonality in employment and gross value added for European Union countries. The analysis is based on the cross-country comparison and time series analysis using data from years 2002-2015. The obtained results show large seasonal fluctuations in employment and value added which size varies depending on the country and section of the economy. Bulgaria, Romania, Finland and Sweden were subject to largest seasonal employment fluctuations whereas the United Kingdom, France and the Netherlands were least prone to such fluctuations. The largest seasonality was observed in construction and agriculture, forestry and fishing. The relationship between the seasonality of employment and the seasonality of the added value was varied depending on the section and the country.

Generally results for construction and agriculture, forestry and fishing confirmed the positive link between employment and production. However, the relationship between the seasonal components of employment in industry and seasonal components of industry value added was weak in most of the European Union countries.

Keywords: *employment, EU countries, seasonality, value added*

1. INTRODUCTION

The labour market, just like the whole economy, is subject to various changes in time, including medium- and short-term cyclical fluctuations. These changes are mainly the subject of interest of the theory of economic cycles [Kydland and Prescott, 1990]. Numerous studies document the cyclical fluctuations in employment, unemployment and salaries [Andolfato 1996]. However, the theoretical models do not fully explain these variables in the business cycle [Shimer, 2005]. Labour markets are also subject to the short-term changes. They entail the use of short-term forms of employment, including the seasonal ones. The premises of temporary employment include mainly the increased flexibility of companies and reduction of costs

[Aleksynska and Berg, 2016; Benito and Hernando, 2008; Nielsen and Schierch, 2014]. However, in innovative sectors and companies with high requirements towards knowledge and skills, the tendency towards temporary employment is being reduced [Davis-Blake and Uzzi, 1993; Kleiknecht 2015]. Analyses based on the performance-based salary model indicate that hiring some employees on a full-time basis and some for a short time constitutes an optimal solution [Saint-Paul, 1996].

Seasonality is one of the most important aspects of short-term changes in economy, also on the labour market. The empirical studies indicate significant diversity of size and distribution of seasonal fluctuations in unemployment and employment in particular countries and their regions and in the sectors. They are also subject to changes in time [Rydzewski at al.1993]. It is controversial whether the mechanism of transmission of seasonal changes is analogous to the mechanism of cyclical fluctuations and can be subject to an analysis under the same model [Barsky and Miron, 1989; Beaulieu et al., 1992]. In contrast to cyclical fluctuations, seasonal fluctuations have an anticipated character, which, in the light of business models, constitutes a significant difference. On the other hand, seasonal changes have much more regular course, which facilitates their identification and analysis.

The study aims at the definition of relations between the seasonal changes in employment and the seasonal changes in production in the European Union states. One attempted to define whether and how the seasonal changes in production affected the seasonal changes in the number of persons employed and the number of working hours, as well as whether and how that response was diversified according to the sector's country. In the analysis, the 2002-2015 quarterly data of the Labour Force Survey were applied.

2. METHOD AND DATA

The mechanism of relations between employment and production may be presented through the reference to the neoclassical model. According to the model, in the conditions of the competitive market the size of employment is defined through the condition of levelling of the marginal working product with the expected real wages. Increase in the marginal product increases the demand for work and employment. This model assumes that a change in employment does not result in costs, which is questioned by the model with adjustment costs. Costs of hiring, dismissing, maintaining vacancies affect the companies' decision concerning employment, extending the range under which they are not likely to change its size. Consequently, the higher the adjustment costs, the lower the sensitivity of employment to changes in the size of production. This decrease in sensitivity should be particularly clear in the case of short-term seasonal changes, when companies can assess the periods of increase and decrease in production with relatively higher accuracy.

While performing the empirical research, in the first step the seasonal components were separated from the analysed time series and the average seasonal variations were calculated. The Census X-13 procedure was used to that end. While comparing the states, the size of seasonal fluctuations in employment and production was compared.

In the second step, separately for particular countries a dynamic analysis of relations between changes in employment and changes in production was performed. The following model was applied:

$$L_{na,t} - L_{a,t} = a_0 + a_1(Y_{na,t} - Y_{a,t}) + \varepsilon_t$$

where $L_{na,t}$ and $Y_{na,t}$ are original, non-deseasonalised values of employment and production, while $L_{a,t}$ and $Y_{a,t}$ constitute their deseasonalised values. The coefficient a_1 presents the seasonal elasticity of employment towards production.

In the study, the Eurostat and Labour Force Survey data concerning the value of production and employment in the EU states were applied. The size of employment was determined with two measurements: the number of persons employed and the number of working hours. Adoption of two different measurements is justified by the fact that personnel costs change differently at increase/decrease in the number of persons employed, and differently at increase/decrease in the number of working hours. A response to changes in fixed and variable personnel costs is also different. Consequently, the number of persons employed and the number of working hours do not constitute perfect substitutes. In the area of labour, the production measurement was adopted as the added value of production expressed in a national currency and fixed prices in 2005. The analyses were conducted for four sectors: I – industry, II – construction, III – agriculture, forestry and fishery, IV – retail trade, transport, accommodation and food service activities. The 2002-2015 quarterly data were applied, with use of data converted into logarithms.

3. RESULTS

Labour markets in the European states show great diversity. Differences concern i.a. participation rate, unemployment rate, variations of the number of persons employed and unemployed, remuneration level. The results presented in Table 1 indicate that considerable differences concern also the size of seasonal fluctuations in employment. While commenting the presented results, one may pay attention to the differences among particular states, the most important sectors, and the number of persons employed and the number of working hours. Taking into account the total number of persons employed, Bulgaria, Romania, Finland and Hungary were certainly characterised with the largest seasonal fluctuations. The smallest fluctuations were observed in France and Great Britain, but many countries were described with slightly higher seasonality. Considerably larger differences among countries occurred in the case of the number of working hours, while their arrangement was also different. The highest seasonality of the number of working hours characterised Switzerland and Netherlands, while the lowest – Luxembourg and France. In the majority of countries, seasonality of the number of working hours was higher than the seasonality of the number of persons employed. The largest differences occurred in Sweden, Netherlands, Slovenia, Spain, and Denmark. Minor differences characterised Austria, Bulgaria, France, Latvia, and Luxembourg.

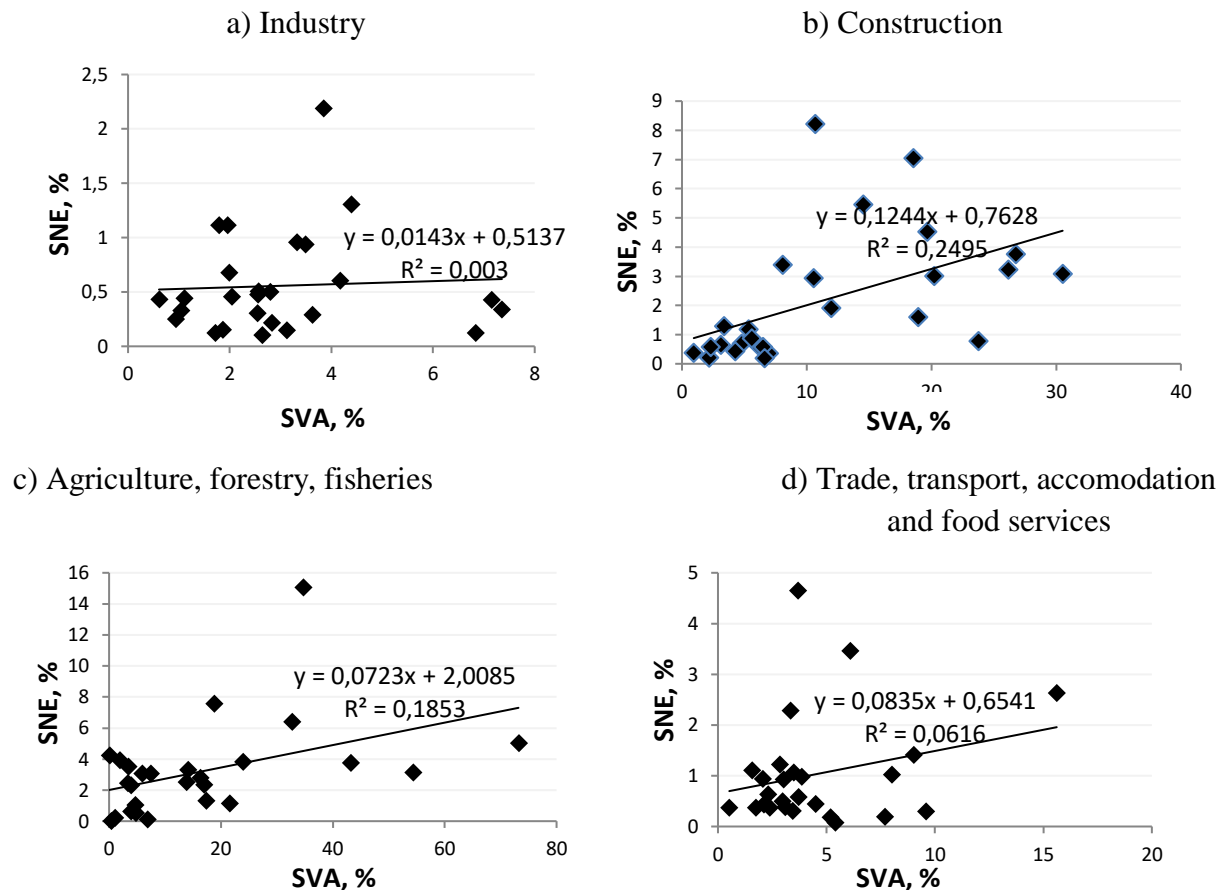
*Table 1: Average seasonal fluctuations in the number of persons employed and the number of working hours in the European Union states (%) (own calculation based on Eurostat data)
[Table ends on the next page]*

Country	Number of employed				Number of hours worked			
	I	II	III	IV	I	II	III	IV
Austria	1,12	7,05	2,79	1,11	0,45	9,64	1,86	0,84
Bulgaria	1,31	2,94	15,05	2,63	0,87	3,88	22,48	2,14
Belgium	0,25	0,35	4,25	0,94				
Cyprus	0,67	0,61	1,30	3,46	4,37	4,65	4,51	4,90
Czech	0,15	4,53	6,40	0,18	3,81	6,53	9,78	2,45
Denmark	0,46	1,30	2,31	1,06	3,95	3,01	2,16	2,75
Estonia	0,50	5,45	3,06	0,58	2,07	6,07	5,17	1,01
Finland	2,19	3,39	3,93	2,28	3,68	4,67	12,33	1,91
France	0,15	0,21	0,00	0,37	0,17	0,19	0,01	0,40
Germany	0,43	1,91	3,50	0,50	3,28	4,15	11,90	2,94
Greece	0,29	0,59	0,20	1,41	0,60	2,48	8,24	2,39
Hungary	0,95	0,78	7,55	0,19	0,64	1,63	8,33	0,67

Ireland	0,60	0,69	1,15	0,63	1,65	1,64	1,86	1,64
Italy	0,21	0,65	3,15	0,93	3,57	3,30	3,74	1,06
Latvia	0,47	3,23	3,83	0,45	0,92	5,68	9,06	0,65
Lithuania	1,11	3,00	3,76	0,98	1,60	4,43	8,90	1,21
Luxembourg	0,12	0,44	0,64	0,30	0,15	0,43	1,20	0,38
Malta	0,38	0,36	0,30	0,64		0,08		0,88
Netherlands	0,12	0,20	3,31	0,44	6,86	4,71	2,02	5,21
Poland	0,43	3,75	2,45	0,38	1,05	4,64	10,94	0,98
Portugal	0,44	0,58	1,05	0,37	2,81	0,96	2,04	1,41
Romania	0,34	3,08	5,03	1,02	0,69	4,61	9,25	1,08
Slovenia	0,33	1,59	2,33	0,29	1,62	2,61	5,12	1,14
Slovenia	0,10	1,17	0,09	0,08	5,27	3,14	3,07	4,14
Spain	0,50	0,86	2,51	1,22	4,19	2,13	1,19	1,22
Sweden	0,94	8,22	3,05	4,65	7,40	9,53	10,32	3,78
United Kingdom	0,30	0,38	0,51	0,37	0,99	1,37	3,18	1,14

I – industry; II – construction; III – agriculture, forestry, fisheries, IV – trade, transport, accomodation and food service activities

Figure 1: Seasonal fluctuations in the number of persons employed (SNE) and seasonal fluctuations in the added value (SVA) in the EU states (own elaboration)



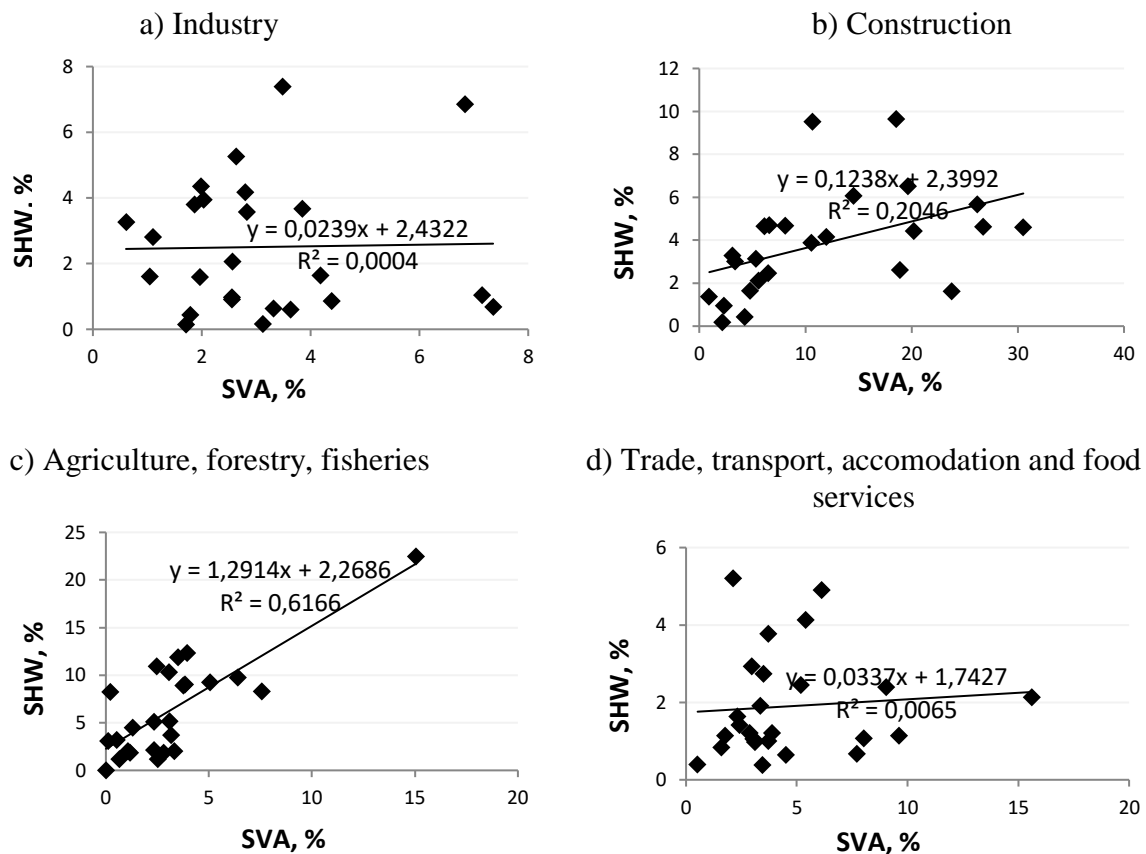


Figure 2: Seasonal fluctuations in the number of working hours (SHW) and seasonal fluctuations in the added value (SVA) in the EU states (own elaboration)

Intersectoral differences concerning the seasonality of employment were larger than the differences among the states. In the majority of countries, the highest seasonality characterised agriculture, forestry and fishery treated together, and construction, while the lowest – industry. However, in many countries low seasonality in the industry concerned only the number of persons employed, while the seasonality of the number of working hours was similar, or even higher than in other sectors (e.g. Spain, Netherlands, and Slovenia). Consequently, the intersectoral differences were more visible for the number of persons employed than for the number of working hours.

Seasonal fluctuations in employment result from many various factors. In the study the influence of fluctuations in production was attempted to be defined. In the European states, the added value is subject to large seasonal fluctuations, while similarly to the case of employment they are diversified with regard to the country and the sector. The added value in the sector of agriculture, forestry and fishery and in the construction sector is described with decidedly the strongest seasonality. According to the content-related comments, the analysis of relations among the seasonality of employment and the seasonality of production was conducted in two ways. In the first procedure, the data concerning the average seasonality of employment and production in particular countries were compared. One attempted to answer the question, whether in the countries with higher seasonality of production the seasonality of employment is also higher. Diagrams 1 and 2 show the results of this comparison. In general, the presented results indicate the lack of relations in the industry between the seasonality of production and the seasonality of employment. These relations were much more visible in the event of construction, agriculture, forestry and fishery. The comparison among the countries demonstrate that together with an increase of seasonal production by 1%, the number of persons

employed in the construction industry increases by 0.11%, while the number of working hours – by 0.12%. In the sector of agriculture, forestry and fishery, together with an increase of seasonal production by 1%, employment increased by 0.7%, while the number of working hours – by 1.29%. The presented comparison shows that the seasonal changes in production have the most powerful effect on the number of working hours in agriculture, forestry and fishery.

The second procedure applied in the study consisted in the analysis of relations between seasonal employment – seasonal production in particular EU states. Table 2 presents the synthetic data.

Table 2: Elasticity of seasonal variations towards variations of the added value (own elaboration based on Eurostat data)

Country	Number of employed				Number of hours worked			
	I	II	III	IV	I	II	III	IV
Austria	0,27	0,06	0,34	0,17	0,18	0,05	0,45	0,17
Bulgaria	0,17	0,23	0,19	0,05	0,06	0,40	0,30	0,05
Cyprus	-0,18	0,05	0,04	0,48	-1,37	-0,12	0,30	0,51
Czech	0,04	0,17	0,22	Ns	1,64	0,24	0,29	-0,27
Denmark	Ns	Ns	0,35	0,19	1,30	Ns	Ns	-0,32
Estonia	Ns	0,18	0,24	Ns	0,55	Ns	0,36	Ns
Finland	-0,16	0,83	0,40	0,25	0,74	1,97	0,49	0,35
France	-0,04	Ns	Ns	-0,53	-0,05	Ni	0,04	-0,57
Germany	-0,09	0,66	0,16	0,15	-2,45	2,82	0,17	-0,35
Greece	Ns	Ns	Ns	0,13	0,10	3,24	0,20	0,23
Hungary	0,17	0,42	0,02	Ns	0,10	0,44	0,06	-0,04
Ireland	-0,11	Ns	0,11	Ns	-0,24	0,02	0,25	0,32
Italy	Ns	0,05	0,22	0,20	0,16	0,06	1,04	Ns
Latvia	-0,06	0,17	0,12	0,06	0,17	0,40	0,19	0,14
Lithuania	Ns	0,06	0,15	0,21	0,64	0,14	0,22	0,24
Luxembourg	Ns	0,09	0,06	0,07	Ns	0,19	0,06	0,09
Netherlands	-0,02	0,09	Ns	0,14	0,97	0,06	0,45	Ns
Poland	Ns	Ns	0,12	0,06	Ns	Ns	0,14	0,17
Portugal	Ns	0,01	0,24	0,13	1,86	0,32	0,28	Ns
Romania	Ns	0,04	0,07	0,12	0,04	0,09	0,10	0,13
Slovakia	Ns	0,09	0,07	Ns	Ns	0,18	0,08	Ns
Slovenia	0,02	0,01	0,19	0,02	Ns	0,34	0,31	-0,43
Spain	-0,05	0,06	0,06	0,41	1,35	0,09	Ns	Ns
Sweden	-0,09	0,13	0,29	0,13	1,98	1,22	0,64	0,98
United Kingdom	-0,06	-0,10	0,26	0,14	Ns	-0,32	-0,65	0,29

Ns – not significant at $\alpha = 0,05$

I – industry; II – construction; III – agriculture, forestry, fisheries, IV – trade, transport, accomodation and food service activities

Relations among the examined values were strongly diversified according to the sector's country and measurement of employment. In some countries those relations were positive and significantly independent on the sector and measurement of employment. That group included Austria and Bulgaria. The second group was constituted by the countries where the relations

were positive, but not in every case significant. That group included Estonia, Greece, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovenia, and Italy. In the event of some countries, no significant dependence between seasonal changes in employment and seasonal changes in production were declared.

While comparing the results for particular sectors, it may be stated that the strongest increases of employment, especially measured with the number of working hours, characterised the construction industry and the sector of agriculture, forestry and fishery. Flexibility of the number of working hours clearly larger than 1 with regard to the added value was observed in the construction sector in Finland, Greece, Germany, and Sweden. In turn, in the industry in most countries no significant relations among the seasonal fluctuations in the number of persons employed and the seasonal changes in the added value were observed. For some countries, those relations were negative, contrary to the theoretical prerequisites. However, in many countries considerable flexibility of the number of working hours towards production was declared. E.g. in Sweden it came to 1.98, in Portugal – to 1.86, in Czech Republic – 1.65, Spain – 1.35, and in Denmark – 1.30.

4. CONCLUSION

Theoretical models indicate the complex character of mechanisms forming the size of employment in economy. Although changes in production, caused by changes in demand or by supply factors, should affect the changes in employment, this influence may be weakened by adjustment costs, vacancy maintenance costs, institutional, social, demographic conditionings specific for a country, sectors or particular companies. The obtained results largely confirm the complex character of these relations. In general, the weakest relations among employment and production characterised the industry sector, while the strongest ones – construction, agriculture, forestry and fishery. The observed differences may be explained by the specificity of particular sectors. Two last sectors have much more seasonal character, which should entail larger seasonal fluctuations in labour demand. Moreover, due to averagely higher requirements concerning the personnel' qualifications and the capital level per employee, the adjustment costs and vacancy maintenance costs are higher in the industry, which should reduce the tendency to hire for short periods, including seasonal employment. Seasonal fluctuations in production have a higher influence on the seasonal fluctuations in the number of working hours than employment, especially in the industry. This suggests that in the conditions of high adjustment costs companies prefer the stabilised number of persons employed and responding with the number of working hours to the seasonal changes in production.

The conducted analyses indicate great diversity of the European Union states with regard to the seasonality of employment, as well as its relations with the seasonality of production. In general, the highest seasonality of employment characterised the poorer EU states, which would suggest the negative relation among the economy's efficiency and seasonal fluctuations in the number of persons employed. However, it is hard to see any differences between the richer and poorer EU states in the size of seasonal fluctuations in the number of working hours.

The last comment concerns the use of seasonal fluctuations in the labour market functioning analysis. An advantage of this approach is constituted by the possibility of more accurate analysis of short-term responses. It is easier to select seasonal fluctuations characterised with repeatability and greater stability than cyclical fluctuations. On the other hand, seasonal fluctuations can be more susceptible to non-economic factors specific for particular countries, e.g. preferences concerning the holiday period, entering of new age groups into the labour market. Therefore, performance of the labour market analysis based on seasonal fluctuations should be treated not as an alternative towards the analyses based on cyclical fluctuations, but as their deepening and supplementing.

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CITIZENS' PARTICIPATION IN ADMINISTRATIVE ACTION IN GREECE

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ABSTRACT

The contents of the run in the administrative action are linked to the efforts either of the person or citizen groups to affect the political, economic, social and cultural decisions obtained in each level of sociopolitical system. The participation of the citizens at the running of the administrative action contributes to the democratization of the public administration as well as to the clarification of sub regulating relation in the form of the exchange of views between the representatives of the conflicting interests. Hence, the administration is able to both be better informed and study more fully the opinions of the participants in the process and eventually take them into account in order to shape the final decision. Besides, the citizens' participation at each stage of the process, beyond its contribution to pluralistic configuration of alternative proposals and solutions it also helps achieving a mutual agreement of all the conflicting views and perceptions. Therefore, the social acceptance for the taken decisions will easier and more agreeable. The objective of this paper is to present all the direct and indirect forms of citizens' participation in making administrative decisions in Greece.

Keywords: *administrative actions, citizen participation, laws*

1. INTRODUCTION

The contents of the run in the administrative action is linked with the efforts either of the person or citizen groups to affect the political, economic, social and cultural decisions obtained in each level of sociopolitical system. The participation of the citizens at the runners of the administrative action contributes to the democratization of the public administration. Furthermore, the participation of citizens, contributes to the clarification of sub regulating relation in the form of the exchange of views between the representatives of the conflicting interests. Hence the administration is able to both be better informed and study more fully the opinions of the participants in the process and eventually take them into account in order to shape the final decision. Besides, the citizens' participation at each stage of the process, beyond its contribution to pluralistic configuration of alternative proposals and solutions it is also required for the eventual achievement of compromising the supported views and perceptions¹. Thus, social acceptance for the taken decisions will easily be possible, and is reduced in case of vital social interests ignoring².

¹ Dagtoglou, Causes and objectives of the cartel lobbyists and independent experts in the interests of public management, Journal of the Greek Lawyers 1964, p. 689, 694.

² Gerontas, The participation of citizens and social actors in the administrative decision-making, 1986, p. 163.

2. FORMS OF PARTICIPATION

A. Indirect Participation

Indirect participation exists when the will of the people is not directly formulated from any person concerned, other than persons who are considered as representatives of the interested people³.

As social actors are characterized the political parties, the associations, the bar associations, the Local Authorities etc. Indeed, the Local Authorities are not considered as operators of the State Authority's exercise, because they both represent and activate, those specific social interests, that are formed each time by the major needs of the citizens everyday life, such as health, social security, environment needs etc⁴.

Furthermore, the indirect participation is divided into authentic and inauthentic. Authentic representation of the social bodies, is when the representative is either proposed or elected by the particular social body, that is not delegated, but is represented (with the consequence that the representative's action is governed by the binding mandate⁵).

Inauthentic representation exists when the representative either is not recommended by the social body or the representation cannot happen due to the large number of the social bodies or also, due to the lack of organization in a particular citizens' section (for example consumers, taxpayers etc). In such cases, it will be not considered as an actual representation, but the repeal of specialists and technocrats by the Administration, which on one hand benefits from the specific experience and knowledge required on the dealt matter, and on the other hand ensures their cooperation in the implementation progress of the taken decisions. In these cases, for example is included the teacher's involvement in Legislative Committees (L. 1237/1982), or in Committees for the drawing up the civil servants charters (L. 1320/1983).

The main form of indirect participation is the appointment as members to collective administrative organs with decisive or advisory competence, of persons that are displayed by the Local Authorities, or the civil servants, or also either by private corporations or other legal persons that are directly elected from the interested persons.

Another form of indirect participation is the formulation of opinions or suggestions on draft regulatory or individual acts from collective bodies, the members of which delegate indirectly certain categories of persons such as are the municipal and regional council, the municipal and regional consultation committee. For example, the study of the environmental impacts that is provided for in the article 5 of the L. 1650/1986, is approved by the regional council, which previously informs the citizens to express their opinion⁶.

Indirect participation also exists in the National Council on planning, that is provided for in the article 4 of the L.4447/2016⁷ and is composed of representatives from social bodies.

³ Gerontas, *ibid*, p.195.

⁴ Gerontas, *The political dimension of Law and the sociopolitical reality*, 1986, p. 27.

⁵ Gerontas, *ibid*, p.209.

⁶ Spiliotopoulos, *Manual of Administrative Law*, 2011, p.164.

⁷ Article 4 par.1 n.4447/2016 «*1. Recommended in Environment and Energy Ministry National Planning Council, which consists of nineteen (19) members.*

Furthermore, in the framework of education, in the article 67 L.40009/2011, is provided that the Council of the Authority shall comprise, inter alia, from «A representative of undergraduate students participated in a College of the institution of quality assurance, which is recommended by the National Student Union of Greece (EFEE).e) A representative of undergraduate students who have participated in the collective body of the institution of quality assurance, which is recommended by the National Student Union of Greece (ESEE).f) A researcher in active tier non-academic research institutions supervised by the General Secretariat for Research and Technology.g) A common representative of the Technical, Geotechnical and Economic Chamber of Greece, proposed jointly by these chambers.»

The social bodies' participation in the decision- making process leads to both technocratic superiority of modern administration and in direct contact communication and cooperation of the administration with the popular will or the willingness of the powerful and important lobbying groups⁸ or power groups.

B. Direct Participation

1. The personal Application

In some cases for the adoption of an administrative act is required the prior submission of application to the Public Authority by the concerned person. For example application for permit etc. The declaration of the private will by an individual constitutes a condition of issuing administrative acts.

Of course, it should be pointed out, that with the citizen's involvement in the administrative act is not transformed into bilateral, but it still remains state's unilateral act performed by the public Authority. Of course, in cases where the discretion of what should be done, of the administration is quite extensive, the administrative procedure is calibrated so that the citizen's application, ultimately, constitutes substantial participation in the adoption of the act⁹.

2. The citizen's participation in the procedure of developing Town and Country Planning drafts.

In the article 3 of the 17th July's 1923 decree is provided that « Each city plan before approval is exposed after the training of the relevant topographic map at City Hall within 15 days, (...) interested parties may within that period to take note of this and to submit in writing to the municipality any claims against the document».

That provision requires the observance of the specific procedure of publicity in city's plan, which aims to take into account the vital interests of the area's private individuals¹⁰.

The subsequent provision of the article 3 par. 2 L.1337/1983, regulated the citizens' participation involvement, stipulating that «participation of interested citizens should be pursued in the compilation of general urban plan by all appropriate means, such as open concentrations or information on the type.». The same arrangements were provided in the article 154 par. 1 of the Code of basic planning legislation (pd 1427/1999).

It is already provided that the citizens will participate upon the Urban Plan's drawing up¹¹, in the article 10 par. 4 L.447/2016. In particular, «a) The opening of the procedure of preparation of Urban Planning Implementation Plans made by the appropriate municipality. The process

⁸ Gerontas, *ibid*, p.204

⁹ Flogaitis, *Views of modern days state's intervention*, 1984, p.92.

¹⁰ Gerontas, *ibid*, p.230.

¹¹ For some areas urbanization is required the preparation and adoption of urban implementation plan which includes the zoning plan and implementation practice.

may be initiated by the Decentralized Administration after informing the relevant Municipality. b) Urban Implementation Plans, prior to their adoption, are set by the relevant cadastral diagram in the relevant municipality for twenty (20) working days. The fact that the public is notified by publication in two (2) newspapers, local or national circulation and the website of the Municipality. Exceptionally, the above period may be extended up to five (5) business days following a reasoned recommendation to the competent service of the municipality. Applicants may within that period to take note of the above and to submit in writing or electronically on the website of the relevant Municipality of objections, which the municipality must examine within forty (40) working days of the end of that period. If, after examining the complaints, the need arises to amend the Urban Plans are posted again for ten (10) working days to inform the public. After no action over the above deadlines, the town plans forwarded for approval.».

3. The exercise of the previous hearing's right

This right is based on the principle of previous hearing, established by the Greek Constitution the European Charter of Fundamental Rights and the Greek Code of Administrative Procedure (see articles 20 par. 2, 41 par. 2 and 6, respectively)

The right of the previous hearing constitutes a citizen's participation form in the administrative action¹². The right of the previous hearing, also, constitutes the possibility of the citizen to express its views, before any unfavorable for him administrative act, following a relevant summon by the management body and even properly.

According to the explicit provision of the Constitution's article 20 par. 1 and of the article 6 Code's of Administrative Procedure, alongside the established case law of our courts, the right of the previous hearing, must be followed in any administrative action or measure that leads to a specific individual arrangement, namely, in individual administrative act and not on normative acts, where the persons concerned not known in advance and determined (see Council of State 4242/2015, 1558/2015. 350/2013, ps 3690-2/2009),

The right of the previous hearing can be analyzed in the following claims of the citizen to the administration¹³: 1) the requirement of the person concerned for registration summon, 2) the requirement to inform of the person concerned by the competent institution on the case that is issued, which may result in taking adverse action against him, 3) the requirement of the person concerned for relevant and effective formulating of views and 4) the requirement of the person concerned for taking into account the allegations made by him.

The Conditions of the obligation of the Administration to respect the right of the previous hearing are the following¹⁴:

- The administrative action must be taken by an Administrative Authority exercising public power. In the concept of administrative authority are classified within legal persons with ambivalent nature.
- It is required that the act must be detrimental, ie , constitutes individual executory administrative act which by its nature and content is legally enforceable in the courts to redress under the law. It is not referred to internal documents, suggestions and proposals.

¹² Papaxatzis, The system of Greek applicable administrative law , 1965 , p.765.

¹³ Prevedourou, www.prevedourou.gr/the-right-of-the-previous-hearing.

¹⁴ Divani, The right to be heard in the administrative procedure, Theory and action of administrative right 6/2013, p.496 et seq.

- The administrative action should bring about positive damage to the interests or the Rights of the person concerned.
- The damage must come from the administrative action itself and not directly from the Law, because in which case the administration acts during circumscribed powers¹⁵.
- The damage must be a result of Administration exercising administrative discretion¹⁶.
- The person concerned should not already have the opportunity to present his views in the administration¹⁷.

In view of those, became accepted¹⁸ that there is already an obligation for prior hearing of the person concerned, when the unfavorable act, is taken for safety reasons or greater public interest¹⁹ (e.g. return on vehicle driving license), the administrative authority which took the measure shall invite the citizen, within 15 days, deadline with subversive character, in order to exercise the right of prior hearing, so that it can make a new setting. If the deadline of the 15 days, expires, the measure ceases to have effect.

The previous hearing is also not required for the adoption of preparatory acts, as well as, during the use of administrative coercive acts.

The previous hearing, is not required in cases of the issue of any unfavorable administrative act under circumscribed powers or when the act is based on objective criteria. Furthermore, previous summon is not demanded, when the unfavorable act is issued upon the request of the concerned person, unless the hearing is expressly provided by the related provisions. The prior hearing is not demanded, when the domicile or residence address of the citizen is unknown and therefore he cannot be summoned.

It is pointed out that from the act's justification the Administration must justify, that the citizen was summoned to exercise the right of previous hearing and that the competent institutions took account of his views of. For the completeness of the motivation, there is a necessity of annotating the main plea of the citizen.

Despite the above- mentioned, the findings of the Supreme Administrative Court has limited the scope of the previous hearing's right, by judging not cancellable the administrative act, if the citizen hasn't alleged, what he would bring before the Administration, if he was summoned, and which could lead to a different result, favorable for him. Otherwise, favorable for him the plea alleging the default of summoning to a previous hearing is displayed and is judged ineffective²⁰.

4. Open Consultation

It is about the new consultation procedures and the establishing of the local referendum in accordance with the American standard «notice and comments». In the Greek Legal Order, it could be mentioned that the introduction of legislative consultation is on the article 6 of L. 4048/2012, as a means of better regulation.

The consultation is made through the website www.opengov.gr, by the publication of planned rules, aiming both the timely updating and the active participation of the citizens, the social

¹⁵ Council of State 2594/1977.

¹⁶ Council of State 671/2011. 1421/2011.

¹⁷ Council of State 457/2010.

¹⁸ See in detail Spiliotopoulos, Manual of Administrative Law, 2011, no. 159 et seq.

¹⁹ Council of State 1399/2009

²⁰ Council of State, Plenary Session, 4447/2012.

entities and every person concerned in it, by comments and remarks that the author of the act must demonstrably take into account. In particular, according to the article 6 L. 4048/2012, it is provided that «1. The consultation is accomplished by the publication, by appropriate means of the proposed regulation, in order to timely information and participation in civil, social organizations and all concerned. Obligated to initiate the consultation process is having legislative initiative Minister. 2. Consultation on the draft legislation may be made through the website www.opengov.gr, completed in two phases, which may take place simultaneously: a) The first phase of the consultation lasts at least two (2) weeks. Purpose of the consultation is to inform and to provide feedback capability on the purpose and intended effect of the proposed regulation, the alternatives, costs, benefits and take risk that may arise from it. b) The second phase lasts at least three (3) weeks. During the second phase of consultation posted on the website of the draft bill provisions and allow in feedback article.».

5. Coordination dialogue committee for constitutional revision

After the setting up of the dialogue committee for the constitutional revision, the citizen's proposals that will be submitted may be a subject to the cases of direct participation in the public administration. More specific, the Committee for Constitutional Law is going to take over the carrying out of a broad open dialogue process at national scale. The Committee's mission is to organize thematic debates and Consultation events for the Constitutional Revision in all municipalities of the country, with the participation of scientific and social bodies, citizens movement and collectivities, as well as, individual citizens. Discussions and further dialogue will be conducted also through an open web platform, where each and every citizen, will have the opportunity to deposit his proposals.

3. CONCLUSION

The administration as an implementation mechanism of political decisions, requires some form of consensus of the citizens, in order to fulfill its functions. The public policies are expressed to a great extent as obligations and rights of the citizens. But, in this way, the administrative power, as well as the freedom of the citizens are restricted. From the side of the citizen, his cooperation depends on the degree of confidence he has on the administrative institutions. The restore of the concept of public confidence to the administration and the creation of reliable procedures of communication between partners, otherwise between administration and citizens, is situated at the center of modern administrative reforms. To boost the transparency, in the administrative action enlargement of the social consultation and more electronic democracy, constitute the objectives of a modern approach for a fair good governance²¹.

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²¹ Ktsistakis, *Introduction to Management Science*, 2009, p.196.

FORECASTING CORRECTNESS OF INCURRING CREDIT WITH THE AID OF E.I. ALTMAN'S, J. GAJDKA'S AND D. STOS'S DISCRIMINANT ANALYSIS MODELS ON THE EXAMPLE OF 200 STUDIED COMPANIES FROM OPOLE AND POMORSKIE PROVINCES

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ABSTRACT

The credit risk related to issuing credit for a company is mostly the result of too high amount of the incurred credit, wrong prediction of future periods and repayment of the incurred liability. In order to minimize risk, as part of information about a credited company, there should be technical and economical information enabling to conduct "collective evaluation of the company's activity" with the use of E.I. Altman's, J. Gajdka's and D. Stos's models. Both models were used in the group of the studied companies of Opole and Pomorskie provinces. The research showed that incurred credit contributed to improvement of the financial liquidity in both groups. However, credits of greater worth led to the lessened increase of net profit and contributed to the small decrease of companies showing net loss. On the other hand, the group of companies, in which credits of lower worth were incurred, could decrease the number of companies suffering from net loss.

Keywords: *company, financial liquidity, credit, discriminant analysis, net profit*

1. INTRODUCTION

Using the J. Gajdka's and D. Stos's model in practice, it should be noted that the model proves to be perfect for Polish conditions because it reflects the realities of the Polish market, and demonstrates correctness of incurred credit of studied companies. The E.I. Altman's model was also used in research because the research results had to be compared in terms of a difference from the Polish market because this ratio was created for the American market and its needs. 200 micro, small and medium-sized companies were studied in the research, including 100 companies from the Opole province and 100 companies from the Pomorskie province. Such a big group of the studied companies was used to indicate correctness of the company's decision on incurring credit. The goal was to indicate that the company, which did not have the financial liquidity, or was operating on the border of its maintenance, could improve or regain the financial liquidity after incurring credit (Gabrusiewicz, 2014, pp. 245-261; Jaworski, 2001, pp. 638-641; pp. Nowak, 2014, pp. 185-194; Rutkowski, 2007, pp. 420-429). However, the amount of properly incurred credit and the period of its duration were additionally taken into account because they had significant influence on the company's financial liquidity. Used models also enabled to indicate that the incurred credit influenced development of the subject's running a business positively, and even contributed to improve its financial condition. Nevertheless, it had to be incurred in a proper amount and for a proper period.

2. J. GAJDKA'S, D. STOS'S AND E.I. ALTMAN'S DISCRIMINANT MODELS

The J. Gajdka's and D. Stos's model reflects the best research results because it was developed in Poland, where Polish companies underwent discriminant analysis. The J. Gajdka's, D. Stos's and E.I. Altman's models are comparable, but were developed for different economic realities. When both models were compared, differences between them were indicated (Parvi, 2015, pp. 141-149; Zarzecki, 2003, pp. 173-181).

The E.I. Altman's model has been used for dozens of years. It may distort a picture and a result of the research because it was used as early as in the 1970s. The credit risk related to issuing credit for investments is mostly the result of the credited company's wrong prediction of its realization (Czekaj, 2008, pp. 10-17; Dowgiałło, 2002, pp. 122-124), and as it can also be noticed in the conducted research, the wrong credit amount, either too low, or too high, and the time period, for which it was incurred. The E.I. Altman's model enables to forecast the course of economic events happening in the company within subsequent two years of its operation. The "Z" value, calculated on the basis of 5 economic and financial ratios, is the basis of this model (Czerwiński, 1980, pp. 44-55; Rutkowski, 2007, pp. 420-429):

TABLE 1: E.I. Altman's guidelines for the company's classification (Source: E.I. Altman).

The "Z" ratio's value	The chance of the company's bankruptcy
Z ≤ 1.8	Very high
1.8 < Z < 3	Indefinite, but significant
Z ≥ 3	Low

$$Z = 1.2 x_1 + 1.4 x_2 + 3.3 x_3 + 0.6 x_4 + 0,999 x_5$$

where:

X1 - working capital / assets in total

X2 – net income / assets in total

X3 – EBIT / assets in total

X4 – net market value of the company/liabilities in total

X5 – trade (net sale) / assets in total

These ratios are statistical assessment of performance of not only the manufacturing company, but also other kinds of the company. If the result of "Z" value's calculations is below three, it means that credit ratings of the company's need to be examined and assessed thoroughly because the indefinite or low chance of the company's bankruptcy, or its ability to overcome such situation, should be expected.

In calculations of the E.I. Altman's "Z" ratio, attention should be paid on the X₅ ratio's value, which is trade (net sale) to assets in total, if the denominator shows low value in relation to the numerator. It may mean that the company is underfunded. That is why values not exceeding three that is X₅ ≤ 3 are considered to be the proper level of this ratio because, otherwise, the general assessment may be distorted.

By the use of the "Z" ratio, we can predict c. 80-90% of accurate forecasts of the companies' bankruptcy, or occurring problems with companies' maintenance of the financial liquidity. It concerns both one- and two-year periods.

E.I. Altman, in his original model, took a sample consisting of 66 companies operating in the same period and sector of economy. Half of these companies was insolvent. At the beginning, he estimated values of 22 financial ratios. Later, the number of these ratios, after conducting statistical tests and verification of their meanings (values), was lessened to 5. These 5 ratios reflect economic and financial situation and predicted credit rating best.

The cut-off point in the E.I. Altman's model amounts to 2.675. It is the discriminatory line separating the set of companies into two groups that is companies with high (below 2.675) and low likelihood of insolvency (above the cut-off point). According to E.I. Altman's research, the error of wrong companies' qualification to the set was then the smallest – as many as 94% of companies, which bankrupted in the previous year, reached the "Z" function's value below 2.675. In the same period, the studied value of 97% of solvent companies was above the cut-

off point. Correctness of the classification a year prior to bankruptcy amounted to 95%, and, by analogy, results of the whole sample amounted to 82% two years prior to insolvency. In Poland, D. Zarzecki undertook verification of discriminant analysis's models in 2003. The result of the analysis of these models conducted by D. Zarzecki shows that the J. Gajdek's and D. Stos's model brings the best research results (Parvi, 2015, pp. 141-149; Zarzecki, 2003, pp. 173-181):

$$Z = 0,7732059 - 0,0856425 \times X_1 + 0,0007747 \times X_2 + 0,9220985 \times X_3 + 0,6535995 \times X_4 - 0,594687 \times X_5$$

where:

- X1 – revenues from the sale/assets in total,
- X2 – (short-term liabilities/cost of production sold) x 360,
- X3 – net profit/assets in total,
- X4 – gross profit from the sale/net revenues,
- X5 – liabilities in total/assets in total.

In this model, the cut-off point is 0.45, which means that a studied company is not endangered with bankruptcy, if the above value is reached. This cut-off point is different from the one given by E.I. Altman, but it is related to the used ratios, which are different in particular models.

A comparison of these two research methods by E.I. Altman, J. Gajdka and D. Stos leads to clear conclusions and gives an opportunity to consider both studied methods – the one developed and functioning in the world, and the one used in Polish companies and adjusted to the Polish market's conditions. The other method is a little bit more correlated with Polish companies. However, ratios show that both methods are close to each other, and comply in indicating these companies, which can be included either to the group of companies endangered with bankruptcy, or the one, in which there are successful companies able to compete on the market with incurring credit.

Strengths of the discriminant analysis are:

- the system's easy functioning,
- the assessment's objectivity, in which measurable financial information is the basis,
- effectiveness measured with the forecasts' regularities scale,
- providing early warnings about credit risk.

Weaknesses are:

- effectiveness dependent on the quality of financial data set necessary to estimate values of particular ratios,
- only selected, not complex, quantitative information is taken into account in the model's construction,
- quantitative information is static.

During the study of companies with the use of both models, the method enabling to compare them in a way presenting their financial capabilities unambiguously was constructed. Depicted values of the "Z" ratios were present in conjunction with several variables presenting what differences occur at the chosen amount of contracted credit and its period (Antonowicz, 2013, pp. 11-20; Parvi, 2015, pp. 141-149).

Used models are very useful in assessment of the companies' crediting and are often used in practice (Czerwiński, 1980, pp. 44-55). Nonetheless, conducted analyses are not attempts to estimate specific worth of credit and the period for which the company should go in debt, but the credit's maximum worth and period. It may lead to issuing credit to a company, which may not be able to repay it in future.

3. THE USE OF E.I. ALTMAN'S, J. GAJDKAS'S AND D. STOS'S DISCRIMINANT ANALYSIS MODELS IN ORDER TO INDICATE CORRECTNESS OF A DECISION ON INCURRING CREDIT ON THE EXAMPLE OF 200 STUDIED COMPANIES FROM OPOLE AND POMORSKIE PROVINCES

In the Opole province, companies were studied with a comparison of the net profit in following years: a year prior to issuing credit, in the year of issuing credit and two years after issuing credit. The net income (division into following groups: from PLN 0 to PLN 100,000, from PLN 100,100 to PLN 200,000, from PLN 200,100 to PLN 500,000, and from PLN 501,000 to 1,000,000) and net loss were taken into account. The goal of such an analysis was to study range and opportunities of the obtained credit's amount in relation to the net profit and owned capital. The net profit, or net loss, indicated whether credit contributed to maintenance and improvement of the companies' financial liquidity, or it led to their bankruptcy.

In 2010-2016, in the Opole province, companies of lower net profit (from PLN 0 to PLN 100,000 and from PLN 100,100 to PLN 200,000) were the most numerous – there were 80 such companies. In the Pomorskie province, ranges between PLN 0 and PLN 100,000, and between PLN 100,100 and PLN 200,000 were dominant – there were 55 such companies. It should be noted that the studied companies tended to maintain net profit.

TABLE 2: Profit or loss of studied companies of the Opole province examined, 100 examined companies (Source: own development based on 100 studied companies of the Opole province)

Year	Profit 0-100,000	Profit 100,100 – 200,000	Profit 200,100 500,000	–	Profit 500,100 – 1,000,000	Net loss
2010	28	33	15		4	20
2011	33	35	11		3	18
2012	35	37	10		3	15
2013	38	42	10		3	7
2014	37	41	12		5	5
2015	35	43	11		6	5
2016	36	44	11		5	4

TABLE 3: Profit or loss of studied companies of the Pomorskie province examined, 100 examined companies (Source: own development based on 100 studied companies of the Pomorskie province)

Year	Profit 0-100,000	Profit 100,100 – 200,000	Profit 200,100 500,000	–	Profit 500,100 – 1,000,000	Loss
2010	19	26	22		5	28
2011	17	26	24		6	27
2012	17	27	20		6	30
2013	17	30	21		6	26
2014	20	27	21		7	25
2015	24	30	20		6	20
2016	24	31	21		6	18

Moreover, incurring credit even led to decrease of the number of companies, in which the loss occurred – from 20 to 4 in the Opole province, and from 28 to 18 in the Pomorskie province. It proves that the decision on incurring credit, which contributed to improvement of the financial liquidity, was correct. These data were summarized in tables 2 and 3.

TABLE 4: Average net profit in relation to value of long-term and current assets of studied companies of the Opole province in PLN thousands (Source: own development based on 100 studied companies of the Opole province)

Year	Average Net profit	Average value of Long-term assets	Average value of Current assets	Average value of assets in total	Average value of the issued credit	Average Loss
Before issuing credit						
2010	199,875 (80 companies)	450,456	658,475	1,108,931	X	225,154 (20 companies)
The year of issuing credit						
2011	205,895 (82 companies)	552,326	798,459	1,350,785	251,425	289,478 (18 companies)
After issuing credit						
2012	245,425 (85 companies)	582,954	821,258	1,404,212	X	198,487 (15 companies)
2013	263,125 (93 companies)	623,745	836,547	1,460,292	X	125,158 (7 companies)
2014	266,254 (95 companies)	639,532	840,128	1,479,660	X	134,578 (5 companies)
2015	295,365 (95 companies)	644,588	855,655	1,500,243	X	132,472 (5 companies)
2016	301,431 (96 companies)	668,602	884,286	1,552,888	X	130,884 (4 companies)

In tables 4 and 5, the average net profit, average long-term and current assets, average worth of issued credit, and average loss of the companies that do not have the financial liquidity were presented. In the table 4, it should be noted that the average value of issued credit amounts to PLN 251,425. It is the working capital facility, revolving in subsequent years, and issued in 2011. The value of credit constitutes c. 1/3 of average values of current assets that is c. 33%. It is the evidence that credit, which is c. 30% of current assets, causes maintenance of the financial liquidity, and does not cause financial destabilization.

TABLE 5: Average net profit in relation to value of long-term and current assets of studied companies of the Pomorskie province in PLN thousands (Source: own development based on 100 studied companies of the Pomorskie province)

Year	Average Net profit	Average value of Long-term assets	Average value of Current assets	Average value of assets in total	Average value of the issued credit	Average Loss
Before issuing credit						
2010	223,114 (72 companies)	501,694	574,112	1,075,806	X	284,697 (28 companies)
The year of issuing credit						
2011	243,632 (73 companies)	509,332	589,362	1,098,694	428,951	294,563 (27 companies)
After issuing credit						
2012	257,896 (70 companies)	497,851	641,369	1,139,220	X	324,521 (30 companies)
2013	260,845 (74 companies)	515,687	658,562	1,174,249	X	336,459 (26 companies)
2014	263,451 (75 companies)	520,678	664,654	1,185,332	X	340,569 (25 companies)
2015	269,663 (80 companies)	526,772	676,512	1,203,284	X	342,754 (20 companies)
2016	285,981 (82 companies)	554,563	692,442	1,247,005	X	340,682 (18 companies)

While analysing the table 5, it should be noted that the average value of issued credit amounts to PLN 428,951. It is the working capital facility, revolving in subsequent years, and issued in 2011 as well. However, in case of companies of the Pomorskie province, its worth in relation to current assets is c. 7/10, so it is 68% of the credit's worth in relation to current assets. In this case, it can be seen clearly that companies maintain the financial liquidity harder with such debts. Moreover, the group of companies suffering loss reduced only from 28 to 27 in the year of incurring credit. As late as in 2012-2016, the group decreased to 18 companies.

But in the Opole province, the number of companies suffering loss decreased four times – from 20 to 4 with 30% relation of incurred credit to current assets, while in the Pomorskie province, the number of such companies decreased from 28 to 18 with c. 68% relation of incurred credit to current assets. In conclusion, too heavy burden with debt and relying on foreign capital (over 68% of the current assets' value) leads to disturbance of the company's financial liquidity because the company is not able to pay such debt and use obtained funds properly and sensibly. Only these companies where foreign capital is 30% of current assets will use them sensibly and in accordance with their financial opportunities. The credit risk taken by a bank due to granting funds was minimal in case of companies with less credit. It is demonstrated by another calculations and use of E.I. Altman's, J. Gajdka's and D. Stos's methods. Nevertheless, granting funds constituting c. 50% of the company's current assets was too dangerous both for the bank and the company. Analysing course of economical events since the moment preceding issuing credit (Pomykalska, 2007, pp. 178-189) and subsequent years of the activity's duration, five selected ratios corresponding to particular models were used. The cut-off points for two chosen discriminant analysis models were obtained.

TABLE 6: The use of E.I. Altman's, J. Gajdka's and D. Stos's discriminant analysis models on the example of 100 studied companies from the Opole province (Source: Own development on the basis of data of 100 selected companies from the Opole province)

E.I. Altman's model		2010	2011	2012	2013	2014	2015	2016
The number of companies showing profit		80	82	85	93	95	95	96
The average "Z" ratio for companies		3.12	3.45	3.32	4.11	4.15	4.17	4.20
Absence of risk, values close to and above 3.0		low	absence	absence	absence	absence	absence	absence
The number of companies showing loss		20	18	15	7	5	5	4
The average "Z" ratio for companies		1.98	2.36	1.95	1.72	1.80	1.83	1.95
Absence of risk, values close to and above 3.0		high	medium	high	high	high	high	high
The J. Gajdka and D. Stos's model		2010	2011	2012	2013	2014	2015	2016
The number of companies showing profit		80	82	85	93	95	95	96
The average "Z" ratio for companies		0.79	0.93	0.88	1.02	1.05	1.06	1.12
Absence of risk, values close to and above 0.45		absence	absence	absence	absence	absence	absence	absence
The number of companies showing loss		20	18	15	7	5	5	4
The average "Z" ratio for companies		0.31	0.39	0.37	0.34	0.33	0.35	0.38
Absence of risk, values close to and above 0.45		high	medium	high	high	high	high	high

Table following on the next page

TABLE 7: The use of E.I. Altman's, J. Gajdka's and D. Stos's discriminant analysis models on the example of 100 studied companies from the Pomorskie province (Source: Own development on the basis of data of 100 selected companies from the Pomorskie province)

E.I. Altman's model	2010	2011	2012	2013	2014	2015	2016
The number of companies showing profit	72	73	70	74	75	80	82
The average "Z" ratio for companies	2.85	2.99	3.01	3.05	3.09	3.10	3.11
Absence of risk, values close to and above 3.0	absence	absence	absence	absence	absence	absence	absence
The number of companies showing loss	28	27	30	26	25	20	18
The average "Z" ratio for companies	0.88	0.89	0.97	1.03	1.07	1.09	1.13
Absence of risk, values close to and above 3.0	high	high	high	high	high	high	high
The J. Gajdka's and D. Stos's model	2010	2011	2012	2013	2014	2015	2016
The number of companies showing profit	72	73	70	74	75	80	82
The average "Z" ratio for companies	0.55	0.57	0.60	0.63	0.68	0.72	0.74
Absence of risk, values close to and above 0.45	absence	absence	absence	absence	absence	absence	absence
The number of companies showing loss	28	27	30	26	25	20	18
The average "Z" ratio for companies	0.35	0.36	0.38	0.40	0.42	0.40	0.42
Absence of risk, values close to and above 0.45	high	high	high	medium	medium	medium	medium

On the example of the studied companies of the Opole province, the Altman's model shows significant improvement of the ratio in 2011 (3.45), when companies incurred credit, in relation to 2010 (3.12). Improvement of the selected companies' financial condition proves the above. In subsequent years, this value is the same, and in 2016, increases to 4.20.

The J. Gajdka's and D. Stos's model also indicates values above the cut-off point from 0.79 to 1.12 in 2010-2016. Only in companies suffering from loss the cut-off's ratio tends to deteriorate with the use of both methods, which proves that even properly selected credit does not improve the companies' financial liquidity. The values described above present research included in the table 6.

In turn, in the table 7, E.I. Altman's, J. Gajdka's and D. Stos's models were also used during research of companies of the Pomorskie province. The above research shows that companies, which maintained the financial liquidity with incurring credit, improved their financial condition, but their cut-off point's ratio are different from ones noted in the Opole province. In the E.I. Altman's model, improvement can be seen in 2010-2016 – ratio's value increased from 2.85 to 3.11. Whereas in the J. Gajdka's and D. Stos's model, the ratio's values increased from 0.55 to 0.74. It means that credit's worth constituting 68% of the current assets' worth is too heavy burden, and prevents from significant improvement of the financial liquidity. Moreover, it does not show the ratio similar to the one obtained in research in the Opole province.

Figure following on the next page

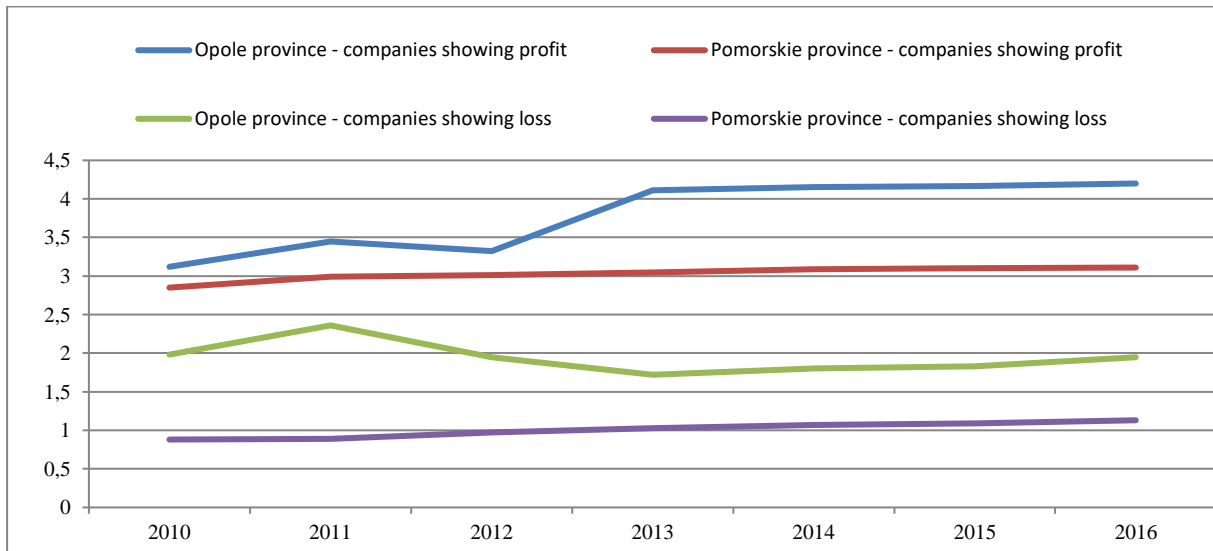


Figure 1. The use of E.I. Altman's model in the analysis of 200 companies of Opole and Pomorskie provinces showing profit and loss in 2010-2015 (Source: own development on the basis of data of selected companies from Opole and Pomorskie provinces).

Furthermore, the cut-off points' values of the companies showing net loss in the Pomorskie province do not show significant improvement of the financial liquidity, but they slightly vary in 2010-2016. In the E.I. Altman's method, they vary from 0.88 to 1.13, and in the J. Gajdka's and D. Stos's method – from 0.35 to 0.44.

It evidences that greater worth of credit could not ensure companies satisfactory improvement of the financial liquidity, but worsened their situation.

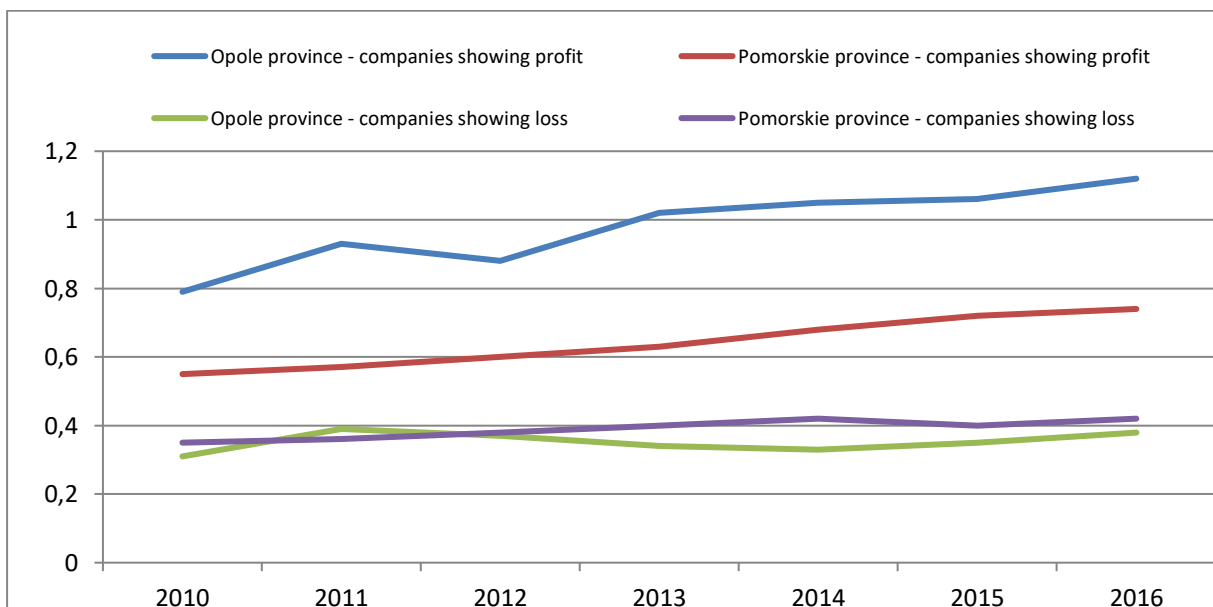


Figure 2. The use of the J. Gajdka's and D. Stos's model in the analysis of 200 companies of Opole and Pomorskie provinces showing profit and loss in 2010-2015 (Source: own development on the basis of data of selected companies from Opole and Pomorskie provinces).

Analysing net profit of the companies, it can be noted that issued credit influenced their development positively. There, its huge influence on the companies' net income can be seen. Thanks to opportunity to incur credit, companies could develop dynamically and as they planned in their assumptions with credit constituting 30% of the current assets' worth. Only credit constituting 68% of the current assets' worth did not cause major changes in many companies and did not lead to improvement of the financial liquidity of the greater number of companies showing net loss.

The sensibly selected credit resulted in the greater increase of net profit and contributed to the increase of net income and profit, without which the company could not develop and reach significant results.

4. CONCLUSION

It should be emphasised that contracted credit in studied companies contributed to improvement of the financial liquidity. However, it was mostly in case of companies, whose credits were c. 30% of the current assets' worth. Furthermore, in case of companies of the Pomorskie province, whose credits were 68% of the current assets' worth, the financial liquidity was not improved as much as in case of lower credits incurred by the studied companies of the Opole province. Nevertheless, credits enabled companies to settle current liabilities, which is proven by lessened number of companies suffering from net loss because such a phenomenon occurred in the group of 100 studied companies in 2010-2016. Therefore, companies maintained good financial condition after issuing credit. It should be stated clearly that the decision on incurring credit was, indeed, correct. But it should be borne in mind that the amount of incurred credit must not exceed specific worth preventing from repaying incurred credit and settling liabilities, which could lead to the company's inability to debt service. That is why c. 30% of the company's current assets' value, resulting from research of the companies, is the optimal amount.

The period, for which credit was incurred, is highly significant, but the studied companies contracted the working capital facility for one year with the possibility to renew it in subsequent years, which did not affect research and cause its distortion.

The companies that had unevenly balanced liquidity or needed additional financial resources for the functioning on the market, and that took up a credit above the value exceeding 68% of the external funds in relation to their current assets, did not maintain the liquidity, and only 10 companies improved it in relation to 18 companies that were at risk of bankruptcy, which was reported in the Pomorskie Voivodeship. While the number of companies in Opole Voivodeship, which improved their liquidity, is 16, that is several times more than in Pomorskie Voivodeship, but the improvement occurred thanks to a taken credit, however the debt amounted only to 30% of the external funds in relation to their current assets. Therefore, there must be a firm answer that the credits that are incurred in the form of cash and account for more than 68% of the external funds in respect of current assets will not have a good impact on the financial condition of the studied companies, since such a capital obligation and interest liability constitutes a major burden for the company, which must within next months, after a credit was incurred, pay it back to the bank.

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THE PROBLEMS OF COLLECTION OF UNPAID SALARIES IN THE REPUBLIC OF SERBIA

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ABSTRACT

This scientific work considers the issue of the shortcomings of system solutions for collecting payments in respect of employment and other forms of work. The subject of this scientific research are the disadvantages of existing solutions of case law and legislative regulations and their possible improvements. The methods used during the preparation of this work are the most of basic methods of scientific knowledge, then statistical method and the method of content analysis. The issue of unpaid wages can be considered from several aspects - legal, moral, ethical and political, so, it is necessary to narrow it to the legal aspects, with particular attention to the impossibility of execution of court judgments that order the payment of salaries to employees. Research indicates that this subject is largely "invisible", especially when it comes to employees in the private sector. Because of objective difficulties there is no record of how many employees managed to collect their earnings after the final judgment in their favor, neither the number of workers who remained unpaid, but they never launched a lawsuit against the employer. This "invisibility" significantly affects the indifference of the legislature and the judiciary to resolve this issue systemically. Experience shows that there is an objective problem of a serious nature, because many employees, despite they won their cases against their employers, they are "punished" by paying court costs, even though they failed to collect those costs and their salaries from the employers. It is therefore necessary to find solutions of this issue by changing the legislative framework, and thus jurisprudence.

Keywords: *employee, employer, salary, unpayed wages*

1. INTRODUCTION

Salary represents monetary compensation to employee for his work and is an essential element of employment. It is the main driving force of the employee, but it is important for society in general. Work without earnings can be understood as a volunteering, or, if you miss another essential element, voluntariness, it can be equated with slavery attitude. Slavery is abolished in modern society, and employment at the present time must be based on a voluntary basis and be paid.

Salary, salary compensation and other employee receivings are considered to be the basic motive of employment and the main driver of education, vocational training and professional advancement¹. Salary is considered as a natural and inalienable right of an employee from employment².

Since ancient times the non-payment of wages was considered as a rough violation of worker's rights. In explaining the Ten Commandments states: “Thou shalt not defraud thy neighbour, neither rob him: the wages of him that is hired shall not abide with thee all night until the morning.”³. Thus, even one day late payment of wages was considered as a severe sin. Code of Hammurabi accurately determines how much per diem wage earner should be payed, so, the

¹ Kulić, Ž. (2008). *Radno pravo*. Novi Sad: Privredna akademija. Page 277.

² Radulović, Z. (2015) *Radno pravo*. Beograd: Visoka škola za poslovnu ekonomiju i preduzetništvo. Page 40

³ *The King James Version Bible: Leviticus. 19:13.* (1611) Retrived 17.04.2017. from <http://www.biblestudytools.com/kjv/leviticus/19.html>.

employer is not allowed to pay him less than that⁴. This provision has protected the rights of wage earner (employee).

According to the Constitution of the Republic of Serbia "everyone has the right to respect for personal dignity at work, limited working hours, daily and weekly rest, paid annual holiday, fair remuneration for work done and legal protection in case of termination of employment.

No one can waive of those rights"⁵. Thus, the denial of the employee's wage and other labor rights enumerated is a direct violation of the Constitution of Serbia.

In addition to the right to remuneration on the basis of invested work, employees are entitled to compensation of earnings and other corresponding income from employment⁶.

2. THE PROBLEM OF RECOGNITION THE ISSUE

2.1. Invisibility

Transition and transformation of the economy from a communist to a capitalist system in Serbia have manifested with a high unemployment and falling standards of living. In this regard, there are two basic problems of working-age citizens of Serbia. One - to find a job, and the other - to charge it. The second problem leads to significant legal uncertainty in the field of labor law, and as such a situation lasts too long, it is obvious that there are systemic shortcomings in order to solve it.

Some progress has been made in recent amendments to the Labor Law. It is established the obligation of the employer to give the employee calculation of earnings. But, we will see that even this solution is not enough to solve this issue.

The first obstacle in solving this issue is that the problem is largely invisible because there is no reliable records about it. It is not known precisely how many workers remained unpaid, although there are some indicative data about it. However, it is not known how many employees has launched court proceedings to collect their wages, how many of them had triumphed in these disputes, neither how many of them subsequently failed to collect their salaries after that. The Ministry of Labor⁷ of the Republic of Serbia does not have such records, as well as the Republic Institute for Statistics, and there is no an adequate response from the Tax Administration neither the Appellate Court in Belgrade. However, extraordinary control that Ministry of Labor conducted on April 11th 2017 at 257 employers with 24,358 employees, found that 34 employers with 2,568 employees didn't pay salaries, and another 15 employers with 704 employee didn't pay the full amounts of salaries⁸. Also, there is an evidence dating from May 2016 to about 100,000 former workers of socially-owned enterprises still waiting for Republic of Serbia to pay back their wages by the decision of the European Court of Human Rights in Strasbourg, and the amount of debt is about 300 million euros⁹. According to some earlier information, from March 2016, about 85,000 employees claim of the state of Serbia some 40 billion dinars¹⁰.

⁴ *The Code of Hammurabi. Translated by L. W. King.* (2011) Paulo J. S. Pereira. Retrived 15.04.2017. from <http://www.general-intelligence.com/library/hr.pdf>. Art. 273. "If any one hire a day laborer, he shall pay him from the New Year until the fifth month (April to August, when days are long and the work hard) six gerahs in money per day; from the sixth month to the end of the year he shall give him five gerahs per day."

⁵ Ustav Republike Srbije. (2006) *Službeni glasnik Republike Srbije*, 98/2006. Retrived 17.04.2017. from <http://www.ustavni.sud.rs/page/view/139-100028/ustav-republike-srbije>. Art. 60.

⁶ Kulić, Ž. (2008). *Radno pravo*. Novi Sad: Privredna akademija. Page 278.

⁷ The Ministry of Labor, Employment, War Veteran's and Social Issues

⁸ Tanjug. (13.04.2017). *Vanredna kontrola kod 257 poslodavaca*. Tanjug. Retrived 13.04.2017. from <http://www.tanjug.rs/mobile/full-view.aspx?izb=323838>

⁹ Dnevnik. (13.05.2016). *Za 100.000 radnika dug 300 miliona EUR*. B92.net. Retrived 14.04.2017. from http://www.b92.net/biz/vesti/srbija.php?yyyy=2016&mm=05&dd=13&nav_id=1131087

¹⁰ Dnevnik. (17.03.2016). *Na papiru milioneri, u životu socijalni slučajevi*. Dnevnik.rs. Retrived 15.04.2017. from <https://www.dnevnik.rs/ekonomija/na-papiru-milioneri-u-zivotu-socijalni-slucajevi>

2.2. Delay or avoidance

Why is it so difficult to determine the number of employees who remained permanently deprived of earnings? First of all, there is a situation of delaying payment of salaries, where there is no intention of employer to avoid payment, but he needs some time to consolidate financial condition, after which the delayed earnings will be paid. On the other hand, there is a situation of complete avoidance of payment of salaries. Usually there is a successive rolling out the payment, and so, instead every month, a monthly salary gets paid in a month and ten days, a month and a half, two months... Salary delay becomes chronic and the number of monthly wages owed to an employee gets bigger and bigger. It is very difficult to draw the line when the delay in payment of salaries exceeds into payment avoiding. There is no a reliable time limit, but it depends on a case-by-case basis. Of course, as the payment delay gets longer, it is more likely that this is the avoidance or de facto inability to pay.

Delays in payment may refer to those who still work for employer who owes them salaries, but there is a delay in payment to those who work no longer for the employer from who they claim their earnings. The second situation will be more often the case of avoiding the payment of salary, but it often happens that the first situation leads to second, especially if it comes after months of delay. Those who still work for the employer who owes them salaries, are not motivated enough to initiate court proceedings because they believe that this would offend the employer, which could lead to severe consequences for their employment status. Therefore, they decide to take this step only after they give or get fired or otherwise terminate the employment relationship with the employer. If the claim against the employer with whom they broke employment is a small-scale, most often they do not decide to sue and seek their rights, taking into account the practice of many years of court proceedings, and therefore many years of physical, psychological and even financial exhaustion, with taking a risk to pay the costs of the court. If the claims are of large scale, then it is more likely that they will decide to sue, but even in this case, many people do not decide to demand their right in court, for the same reasons like before. In short, they don't have confidence into justice system.

2.3. The difference between the state and private companies as an employer

On the issue of non-payment of salaries it can be made a difference between state and private companies as an employer. While for the state it's about delaying of payments, in order to allocate funds from the budget, in the private sector can be a delay, but often can be permanent avoiding of payment. In the first case, the debtor is more reliable. The employees in the civil service or public enterprise established by the state, province, city or municipality, always will sooner or later be paid, because the budget is the greatest guarantor of payment of owed. Even in cases if the state, city or municipality would have disappeared, they would always have a legal successors, so it can be concluded that the payment of debt is always certain. On the other hand, private companies and other private legal entities can go bankrupt. In that case, the employees as a bankruptcy creditors would be paid partially or wouldn't be paid at all, if there is no employer's property left, or if it would not be anything left after the secured and priority creditors are paid.

3. THE PROBLEMS OF EXISTING SOLUTIONS

3.1. The salary calculation

The amendments to the Labor Act of 2014 introduced the obligation of the employer to submit the calculation of the monthly salary to the employee, the so-called payout ticket, regardless of whether the salary is paid or not. The basic idea was that this statement serves as a kind of promissory note, so that employees could collect their earnings in case of delay, on the basis of this document as an executive.

Article 121 of the Labor Act states that employer is obligated to submit this calculation of salary to his employee together with payment of the salary, but also to submit this statement for the month in which he didn't pay the salaries and wage compensations. In the latter case, the employer is obligated to deliver notification that salary is not paid out, as well as the reasons why it was not done. The deadline for submission of salary calculation is the same as that for its payment, no later than the end of the month for the previous month. It is also envisaged that the calculation can be submitted in electronic form, as well as that the calculation of salaries and wage compensation is an executive document and its content employee may challenge in a court.¹¹

This calculation of salary improved the position of employees, however, many objections still stand. Employee can now directly submit to the court the calculation of earnings as an executive document, which means that he skips painstakingly proving and trial in the first and second instance, and he immediately seeks an enforcement. Employee submits a proposal for execution on the basis of executive¹², then a court or a public executor shall decide on an expedited basis, within eight days, and a decision must be forwarded to the next five days¹³. However, this system contains certain flaws and there are different situations whether the salary is required by employee or former employee.

3.1.1. The difference in position of employee and former employee

If there is a situation that the employee continues to work for the employer, unions reported as the main complaint that it is a case of an employee who is ready to lose the job, especially in the private sector, and that's why that employee decides on such a step. In fact, an employee who collect earnings in this way, would be in great danger of being exposed to mobbing and that his employer eventually terminate his employment contract. In other words, he is in danger to get fired.

Similar problems have workers employed under contract for a limited time, which is a common practice of concluding employment contracts in Serbia, and if an employee demands his rights, including the payment his wages on time, it can easily happen that his contract would not be extended. The fear of such consequences is usually greater than the desire for rapid payment of salary.

3.1.2. Enforced collection - higher costs for the employer

Since the Labor Law stipulates that the salary must be paid by the end of the month for the previous month¹⁴, the employee may submit to a court a salary calculation on the first day after the deadline expires and may seek enforcement. This execution is not only a mere payment of salary to the employee, but employer would have additional costs. Since the employee must pay the costs of court fees and prepaid expenses of the enforcement process, those costs employer shall be required to reimburse at the employee's request¹⁵. These costs of the court and the bailiff could be excessive in relation to the amount of a monthly salary. And if more employees seek execution through the salary calculation institution, reimbursement of these costs can represent a huge financial loss for the employer. If the delay in payment is caused by some temporary financial problems of the employer, these new costs can further deepen these problems, cause new delays of payments, than new charges of enforced salary collection, and

¹¹ Zakon o radu. (2005). *Službeni glasnik Republike Srbije*, 24/2005, 61/2005, 54/2009, 32/2013, 75/2014 i 13/2017 - odluka US). Retrived 12.04.2017. from http://paragraf.rs/propisi/zakon_o_radu.html. Art. 121.

¹² Zakon o izvršenju i obezbeđenju (2015). *Službeni glasnik Republike Srbije*, 106/2015 i 106/2016. Retrived 12.04.2017. from http://www.paragraf.rs/propisi/zakon_o_izvršenju_i_obezbedjenju.html. Art. 59.

¹³ Ibid. Art 15.

¹⁴ Zakon o radu. (2005.). Art. 110.

¹⁵ Zakon o izvršenju i obezbeđenju. (2015). Art. 33/34.

the situation of financial instability of employer could've turn into chronic. In addition to fear of revenge of the employer, the employees also for this reason don't decide for payment of salary by the executive, because they feel that they can threaten the stability of the employer's business and thus jeopardize their jobs and jobs of their colleagues.

On the other hand, a worker who is no longer employed by the employer who owes him salaries, has no such "moral prejudice", and he does not afraid anymore of losing his job. But, he can have a problem to pay advanced costs of the proceedings, especially if he is left unemployed and without income. If the employer has become insolvent, his ex employee risks to remain without wages and without refund of advanced costs. Of course, there is the possibility that the employee, as an executive creditor, be exempt from paying court fees and advance payments of costs¹⁶. The problem in practice is that the courts, in spite of an emergency procedure, are very slow in execution. And if employee instead of court, goes to private bailiff, who is more effective in this regard, will be faced in practice with a problem that private bailiff does not commence proceedings until his costs are not paid in advance.

3.1.3. Sanctions for employers

There is also the problem of violation of legal norms, precisely the provisions on mandatory submission of salary calculation to employee. Despite rigorous punishments prescribed, culture of issuance the salary calculations have not yet come to life enough, and experience shows that there are numerous cases of employers that don't deliver these statements or they do it with a delay, even if they don't late with the salary payment itself. Of course, the bigger problem is if employer delays salaries, and, because of that, decides not to give to employees their salary calculations, so they can not submit those documents to the court as an executive.

The Labor Law in the penal provisions indicates that the employer will be fined 800,000 to 2,000,000 dinars if he fails to deliver salary calculation to employee. The same penalty is envisaged if the employer did not pay out the salaries¹⁷, which can only be understood so that he didn't paid them on time. For the implementation of such penalties more frequent inspection are required, however, its application may be counterproductive. Why?

Well, the employer fined for late payment, could be brought to the serious financial situation and probably to even bigger problem with delays in salary payment. If, for example, in January 2017 the average gross salary amounted to 57.231 dinars, and minimum 30,984 dinars¹⁸, that means that these two million dinars fine could be used to pay off 35 average, or even 64.5 gross minimum salaries! Here we come to the absurd that the state is more interested in collecting fines and making income into own budget, but that employees receive their wages. The same can be said about provision on fines of 600,000 to 1,500,000 dinars if employer until the date of termination of employment does not pay all due salaries to employee¹⁹. In this case, if the employer is delayed to pay a wage to one (the former) employee, he may be fined in the amount of up to 26 average or up to 48.5 gross minimum salaries! And that can lead an employer to issue of salary payments to other workers! There are also other penalty provisions²⁰ that affect employer, but indirectly affect employees, too. The conclusion imposes itself, rather than the actual care of the employees, the government is more concerned about their own income. Instead of such solutions, the government should introduce enforced payment of salaries to employees, with interest for each day of delay and charging only the expences of enforced payment.

¹⁶ Ibid. Art 33.

¹⁷ Zakon o radu (2005). Art. 273. Par 1. Item 4).

¹⁸ Obrazovni inforator. (27.03.2017). *Prosečne zarade u RS*. Obrazovni.rs. Retrived 14.04.2017. from <http://www.obrazovni.rs/uploads/Prosecna%20i%20minimalna%20zarada%20u%20RS.htm>.

¹⁹ Zakon o radu. (2005) Art 274. Par. 1. Item 14).

²⁰ Ibid. Art. 275/276.

Also, the penal provisions of the law provide the punishment of the responsible person in the legal entity from 10.0000 to 150.000 dinars, depending on the type of violation, which makes more sense. However, it should be noted that the person in this position has a better chance than the other employees to recover his loss, so his fear of fines may not be decisive.

3.2. Situation with false salary calculation

It is necessary to consider the situation if salary calculation does not correspond to the truth, when the employer withholds part of the employee's salary or wage compensation and submits a false salary calculation. The Labor Law stipulates that the compulsory element of the labor contract is an amount of base salary at the date of conclusion of the contract²¹. That means that it is relatively easy to determine the amount of monthly salary based on the number of working hours and performance. Thus, for example, earnings may be lower than agreed if the employee is a certain number of days absent from work due to inability to work (illness or injury), if the illness or injury was not caused at work or in connection with work. In this case, the employee will receive compensation in the amount of at least 65 percent of salary for the period of absence, so his total monthly earnings could be lower, but can not be lower than the guaranteed minimum wage²².

But, there are situations that an employee receives increased salary, which can be on various grounds. According to the Article 108 of the Labor Law he will be paid more:

- 1) for work on public holidays - at least 110% of the base;
- 2) for night work, if such work is not valued in determining basic earnings - at least 26% of the base;
- 3) for overtime work - at least 26% of the base;
- 4) on the basis of time spent at work for each full year of work achieved in the workplace by the employer - at least 0.4% of the base²³.

Also, general act and the contract of employment may determine the other cases of increased earnings. So, if the salary calculation does not have an increase of at least 26% on the basis of night or overtime engagement, 110% for deployment holidays, and 0.4% per each year of service with the last employer or related companies, then the salary calculation is not entirely true. In that case the employee may submit to the execution only salary calculation of basic earnings, the salary that is written on the document, and for the rest he will be compelled to initiate civil proceedings, which takes much longer and costs more.

3.2.1. Overtime

A special problem in Serbia is overtime, the work that is in many cases subject of violations of labor rights, as in the case of non recording and non-payment, as well as the unlawful introduction of overtime work. Overtime should be an exception to the right to limited working hours, but in Serbia it is „a rule“ with many employers, especially in the private sector. Unions present data that some employers force employees to work more overtime hours than the normal working hours²⁴. And what the law says: „At the request of the employer, the employee is required to work more than full time in the event of force majeure, a sudden increase in workload, and in other cases when it is necessary within a specified time to finish the job that was not planned. Overtime work may not exceed eight hours per week. Employees may not work more than 12 hours per day including overtime ... “²⁵.

²¹ Ibid. Art. 33. Par. 1. Item 10).

²² Ibid. Art 115.

²³ Ibid. Art 108.

²⁴ Sloga. (19.01.2017). *Zloupotreba prekovremenog rada*. Udruženje sindikati Srbije Sloga: Sloga.org.rs. Retrived 15.04.2017. from <http://sloga.org.rs/zloupotreba-prekovremenog-rada/>

²⁵ Zakon o radu. (2005). Art 53.

So, the key words for overtime are: force majeure, suddenly and unplanned. From the legal provisions it is clear that overtime can not be organized throughout the year, neither in the period when it is expected that there is a need for increased work, because in such situations the employer may hire additional manpower according to the contract at a specified time or at another workplace engagement.

If overtime work is organized throughout the year, it is clear that it's about the abuse and that there is a need for additional labor, but the employer wants to save money, so instead of hiring new workers, he burdens the existing workers with additional work and working hours.

Within the organization of overtime there could be recognized different degrees of violation of the right to limited working time which is 40 hours per week: (1) unpaid or partially unpaid overtime within the legally determined maximum of eight hours per week, organized in cases provided by law; (2) paid, unpaid or partially unpaid overtime within the legally prescribed maximum of eight hours per week, organized outside the cases provided by law (3) paid, unpaid or partially unpaid overtime with exceeding the prescribed maximum of eight hours per week, organized outside the cases provided by law.

All cases of non-payment of overtime usually are accompanied by a lack of their records with the employer, but such work can be proved by other means.

Labor Law provides for the punishment of a legal entity from 600,000 to 1,500,000 dinars (200,000 to 400,000 dinars for entrepreneurs) if the employee works overtime contrary to the provisions of the Article 53 of this Law, as well as a fine of 30,000 to 150,000 dinars for the responsible person in the legal entity²⁶. However, the prescribed sanctions do not prevent employers to massively violate this right, so, according to reports from unions at the beginning of 2017, such a practice exists not only in private, but increasingly in the civil service²⁷, but employees for fear of mobbing and losing their jobs do not report such violations to the labor inspectorate. On the other hand, the employer follows the logic that the labor market in Serbia is full of unemployed who are eager to replace those who are dissatisfied with working conditions.

This overtime is practically impossible to charge otherwise than through court procedure and engaging into litigation process that can last for years in Serbia. For fear of reprisals, employee will not be motivated to engage in such a process, as long as he is employed with the employer, but can be motivated to do so only after leaving that job.

But proving overtime work is more complicated than proving the basic salary amount, so the employee will be rarely motivated to expose himself to a long and uncertain process. Otherwise, in the case of the unlawful organization of overtime, it is unclear at what rate this work should be paid, if it comes to court proceedings. Overtime is supposed to be paid at least 26% more than the basis wage, but if it is unlawfully organized, and if it is exceeded the allowed eight hours per week, then the employee should have the right to indemnification. He was deprived of the right to limited working hours, and thus he was taken the time that he would have spent on rest, relaxation, family, entertainment, sport, leisure, and even possibility to engage in additional work for an additional profit. Therefore, in addition to compensation for overtime work, employee should also have right to receive compensation for non-pecuniary damage. Unlawful overtime work may take years, so one should bear in mind the general limitation period, which is three years. Employee can claim the earnings or salary parts that are older than three years, but the employer can simply invoke the obsolescence in respect of that part of the debt.

²⁶ Ibid. Art 274. Par 1. Item 3).

²⁷ Gedošević, L. (18.01.2017). *Prekovremeni rad u Srbiji: Ostajemo sve duže na poslu, a evo kako se poslodavci dovijaju da nam ne plate*. Blic.rs. Retrived 15.04.2017. from <http://www.blic.rs/vesti/ekonomija/prekovremeni-rad-u-srbiji-ostajemo-sve-duze-na-poslu-a-evo-kako-se-poslodavci/y1hh9jv>.

3.3. Situations without salary calculation

There are other situations when the employee can not rely on the institution of salary calculation, but for his unpaid wages often remains difficult road, one that is defined by the Law on Civil Procedure. Such situations could be: work without a contract (the so-called labor at black market), claims arising from unlawful dismissal, non-payment of severance pay and others.

3.3.1. Work without a contract

The work of an employee without any contract is in itself a serious violation of his rights, but often his employer adds additional violations. Except that the employee does not have payed taxes and contributions, not running his years of service and no health care, his earnings may be below the minimum guaranteed, and can be forced to unlawful and unpaid overtime. Besides all, there is no salary calculation, so he can not require for unpaid salaries in the execution procedure, but only in a lawsuit. For this violation the law also provides for significant fines for the employer²⁸, but employer takes that risk, because he is led by the logic of the large number of unemployed, so he expects that employee will not report to labor inspectorate his status. While inspectorate is in charge, it can order employer to make a labor contract with employee within 15 days²⁹, and according to the law an employee without a contract is considered to be employed since the day he started working with the employer³⁰. But the fear of losing a job is usually a brake for reporting the violation. Once he stops working with the employer, the labor inspectorate is no longer in charge, so the employee may address only to the court.

3.3.2. Unlawful dismissal

In the case of unlawful dismissal, the employee may demand his rights in court, and that labor dispute should be resolved in an expedited process, but in practice it can last. If he wins the case, the court will bring him back to work, and the employer will be obliged to pay him lost salaries and pay taxes and contributions³¹.

3.3.3. Non-payment of severance pay

The employer is obliged to pay severance pay to an employee who retires or has been fired. The law provides that the employer is obligated to pay this compensation before the contract is terminated. This would mean that this contract can not be terminated and the employee is entitled to a salary, as long as his severance pay is not paid. But in order to achieve his rights, an employee would have to prove it in court.

3.4. The court proceedings and the risk of the employer's insolvency

Employees who claim salaries from the period before the entry into force of amendments to the Labor Law of 29 July 2014, are also not able to solve their problem in a shortened procedure. Together with all the other cases of employees who can not rely on the salary calculation, they can file a lawsuit against the employer for back wages, before the expiration three years of maturity of debt, and after this deadline they risk that the employer will invoke the statute of limitations.

These lawsuits are resolved according to the Law of Civil Procedure, and problem for the legal process, which is usually dragged on for several years, increases the risk of insolvency of the employer. It is also not rare that conscienceless employers transfer their affairs to the newly established companies, and previous company entity leave in debts and without significant

²⁸ Zakon o radu. (2005). Art. 273.

²⁹ Ibid. Art 269.

³⁰ Ibid. Art 32.

³¹ Ibid. Art 191.

assets. This leads to a situation where employee even after a final and enforceable judgment fails to collect its salaries. Also, he is exposed to numerous cost: attorney, filing a lawsuit, expert analysis of the claim, possible appeal against the first instance judgment, and later, in the execution procedure - request for the execution and the advance payment of costs of execution. All these costs should be paid by the one who lost the dispute, in this case, the employer.

But, the Law of Civil Procedure states that the costs pays the one who caused them³², and then the party that loses the dispute should reimburse the costs of the other³³. So, if the employer lost the case, the problem may be its possible insolvency and lack of assets. And now employee not only remains without being able to collect his salaries on the basis of a final judgment, but actually gets punished with additional costs for asking for his rights. Such a legal solution on the costs of the proceedings, when it comes to the labor dispute, makes the law to deviate from the principle of protection the financially weaker party, and financially weaker is the employee, not the employer.

Of course, the law leaves the possibility of exemption from the cost the side that is unable to bear those costs³⁴. However, this solution is eliminated by one of the following provisions that is completely absurd. In that case the court will charge the costs from the party that is obliged to reimburse them, in other words, the one who lost the dispute. But if the court fails to collect those costs from the defeated in the dispute, it will charge them from the side that was exempt from paying the costs (the winner), and that side will be send to reimburse these costs from the defeted side!³⁵ Thus, in the present case, the court recognizes, with all the forces of power at own disposal, that is not able to collect the costs of the trial from the employer, so the court will take that money from the employee. But the court believes that the employee will be more powerfull than the court and to be able to reimburse that money from the employer! Of course, a logical question follows: if even the court failed to collect money from the employer, how the employee could be able to do that?

The deadline for collecting payments after a final judgment is ten years, but in the case of permanent insolvency situations may arise that employees never collect own receivables from the employer, neither his salaries with accrued interest, neither the costs of trial.

In the event of bankruptcy of the employer, employee could be partially charged, but it is possible that he will not be able to collect anything, because he must wait to priority creditors to collect thair claims from the bankruptcy.

4. CONCLUSION

For the sake of introducing greater legal certainty in the payment of salaries to employees, which is by the law and the Constitution guaranteed right of employment, it is necessary to amend the legislative framework and implement effective solutions. First, the state should regulate the payment of wages owed to employees, in order to give a positive example to the private sector. As we said, with the country it's a matter of delay due to problems of distribution of budgetary funds, while at the private sector there is a risk that employees remain permanently damaged and deprived of their salaries. One solution would be that the goverment guarantees the payment of salaries to employees in the private sector, which would motivate state to implement stricter control of their business. Still, such a solution could have the opposite effect, there would be possible the abuses that companies deliberately go into bankruptcy, and don't pay salaries, so the goverment would've take those obligations. A more efficient solution would

³² Zakon o parničnom postupku. (2011). *Službeni glasnik Republike Srbije*, 72/2011, 49/2013 - odluka US, 74/2013 - odluka US i 55/2014. Retrived 15.04.2017. from http://www.paragraf.rs/propisi/zakon_o_parnicnom_postupku.html. Art.151.

³³ Ibid. Art. 153.

³⁴ Ibid. Art .168.

³⁵ Ibid. Art. 173.

be to modify the penal provisions in the Labor Law. Rather than the state collects fines from the legal entities because of not paying salaries or not delivering the salary calculations, which could bring the employer and indirectly employed in the major financial problems, it is necessary to tighten sanctions against the responsible person of the employer. In addition to higher financial penalties to the responsible person for these violations, should be introduced prohibition of performing the functions of the responsible person within a certain period of time, and even criminal liability for serious abuses. Also, it should be established a control body that will control delays of payment, warn a legal entity on the obligation to pay salaries within short additional time and put its name on a public list of salary defaulters. If that doesn't help, control body would, at the expense of the employer, enter into his legal entity and impose coercive payment of salaries with interests. It is necessary to introduce a legal obligation of the employer to pay employee the default interest for each day of delay payment of salary. Everyone pays loans, bills for electricity, water and other bills, together with default interest for delay, and it would be proper that employees receive salaries together with interest for each day of delay. The Law on Civil Procedure is necessary to relieve the employee of litigation expenses and advance payments, and the court should charged those costs after process is completed directly from the party that lost the case. Similar solution should be envisaged in the Law on Enforcement and Securing. All these court proceedings should be made urgent in order to effectively protect the basic human rights of employees, and thus reduce the number of beneficiaries of social care. Of course, in all of this a great help would come from the stronger fight against corruption and unemployment.

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ECONOMIC DEVELOPMENT AND E-COMMERCE IN LIBYA

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ABSTRACT

The study of economic development is one of the newest, most exciting, and most challenging branches of the broader disciplines of economics and political economies. Economic development must deal with the economic, social, political and institutional mechanisms, both public and private, necessary to bring about rapid and large scale improvement in the standard of living for the masses of povertystricken, malnourished and illiterate people of Africa, Asia, and Latin America. One of the main drivers for economic development that has become apparent over recent years is technology. Technology is not something that just happens to economies, it is a process that countries need to consciously and actively promote and nurture. It is now widely accepted that information and communications technologies (ICT) and e-commerce are at the centre of an economic and social transformation that is affecting all countries. The Third World has a well-recognised e-commerce and marketing potential. A significant proportion of the Third World is already partially developed and a significant proportion of the population has a demographic profile similar to that of the developed economies. It is generally believed that e-commerce enables developing country producers to overcome traditional limitations associated with restricted access to information, high market-entry costs, and isolation from potential markets. The majority of developing countries face limitations on the development of their electronic economy (e-economy) stemming largely from low income levels, low literacy rates, lack of payment systems that can support online transactions, and cultural resistance to online trade. Developing countries need to take into consideration that building telecommunications infrastructure is costly. In many cases, countries will need inflows of Foreign Direct Investment (FDI) to improve domestic infrastructure. The revolution of e-commerce presents micro- and macroeconomic challenges, not only for organisations, but also for governments.

Keywords: *developing countries, e-commerce, economic development, structural reforms, technology*

1. INTRODUCTION

A major goal for developing countries is economic development or economic growth. However, the two terms are not identical. Growth may be necessary but not sufficient for development. This study gives a brief background on economic development. It also explains different methods of classifying countries according to United Nations and World Bank criteria. Economic development is usually measured using Gross Domestic Product (GDP), Human Development Index (HDI) and Purchasing Power Parity (PPP). This study discusses the different theories of economic development and critically evaluates each of these theories and how they are used. It also emphasises the use of technology and ICT in economics and explains how they contribute to economic development, and provides a summary of what developing countries should do in order to achieve economic development.¹

The classification of development used by the World Bank divides countries into four groups on the basis of income per capita according to countries' Gross National Income (GNI).

¹ Coppel, J., (2000). E-Commerce: Impacts and Policy Challenges, Working Paper No. 252, Paris: OECD Economics Department, mimeo, June 2000.

These categories were roughly:

- Low-income countries (\$1,000 or less),
- Lower-middle-income countries (\$1001-\$3000),
- Upper-middle-income countries (\$3,000-\$9,000),
- High-income countries (\$9,000 or more).

Sometimes high-income countries are designated as developed countries or the North, and the middle and low-income countries as developing, underdeveloped or less-developed countries or the South.² Moreover, the 134 Asian, African, and Latin American members of the UN Conference on Trade and Development (UNCTAD) often are referred to as the Third World.³ In 1971, the United Nations designated 25 countries with a low per capita income, low share of manufacturing in gross product, and low adult-literacy rates as least-developed. Since then, the United Nations has added other criteria to this list of marginalised economies, including low levels of human development, natural handicaps, and low economic diversification.⁴ Yet there is still a concern as to how to categorise the following:

- The 26 economies in transition (East Central Europe and the former Soviet Union, all low and middle-income countries except high-income Slovenia);
- The eight members of the Organisation of Petroleum Exporting Countries, or OPEC;
- The 25 poorest countries, designated as least-developed countries;
- And 106 other developing countries.

2. ECONOMIC DEVELOPMENT MEASUREMENTS

Until recent years a country's aggregate output, or GDP, was used almost exclusively as the primary measure of economic development. Both comparative (i.e. between countries) and over time, growth in GDP per capita was commonly used to describe changes in well-being. Recognising the inadequacy of this measure of well-being, the United Nations began to devise and collect other macro-level quantitative measures of health, education, employment and housing in addition to real income data in the mid 1950s. More explicit attempts at capturing the level of human well-being were made more recently in the UN's HDI. Development indicators suggest pronounced regional differences. The countries of Latin America tend to be high up in the category medium human development. The countries of Asia also tend to be in the medium development classification but lower down the ranking than countries in Latin America. The category of low human development is almost entirely made up of countries from sub-Saharan Africa.⁵ Measuring economic development is a difficult process. Existing attempts to assess national development are still suffering from conceptual and measurement challenges. This has led to a literature that is, in general, excessively focused on economic development without connection to the capabilities of those institutions to expedite economic development of citizens. Overall growth rate is another economic development measurement. Growth rates being measured in PPP, HDI, and independent measures of inequality based on the preferences of decision and policymakers. These different measures always tell different stories. To remedy the failure of GDP to capture purchasing power inequality and to allow crosscountry comparisons, PPP equivalents were constructed. However, growth rates based on a constant American dollar (USD) values often mask the distribution of wealth. Growth rates can increase dramatically but still fail to raise the overall well-being of the general

² World Bank Report, 2002

³ UNCTAD, 2002

⁴ Anand, S. and Sen, A., (2000). The Income Component of the Human Development Index. *Journal of Human Development* 1(1): 83 – 106.

⁵ Bouma, G.A., and Atkinson, G.B.J., (1999). *A Handbook of Social Science Research: A Comprehensive and Practical Guide for Students*. New Revised and Expanded Edition. Oxford University Press, Oxford.

population of a country or region.⁶ Other measures were constructed to address the fact that income alone is not a sufficient measure of development. The physical quality of life index is a composite score of life expectancy, infant mortality and literacy. The problem is that this measure reveals more about the quantity as opposed to the quality of life. However, a new method to measure economic development and growth is necessary to overcome all the weaknesses identified by the existing methods to give a better understanding of the real situation in different countries in the world.

3. ECONOMIC DEVELOPMENT AND ICT

It is now widely accepted by policy makers, enterprises and society at large that ICT is at the centre of an economic and social transformation that is affecting all countries. ICT and globalisation have combined to create a new economic and social landscape. As stated in UNCTAD (2003), in the late 1990s the US economy was able to grow faster than at any time. This combination of strong economic growth and low inflation has been linked to the diffusion of new ICT.⁷ The G-8 2000 report stated that ICT is fast becoming a vital engine of growth for the world economy. A recent study by the Organisation for Economic Cooperation and Development (OECD) analysed the contribution of ICT to economic growth, as well as the impact of ICT-using and producing sectors compared with that of non-ICT sectors on economic growth and labour productivity. The result was fairly conclusive evidence that suggested that investment in ICT made a significant contribution to economic growth in a number of countries and also had a substantial positive impact on economic performance in other countries.⁸ The advances in information and communication technology did more than almost anything else to drive the last decade's economic boom and the integration of markets around the planet. The money spent on the digital infrastructure that supports these burgeoning new services from the Internet servers to fibre-optic networks has itself become a major engine of economic growth. ICT offers great benefits when ICT investment is combined with other organisational assets, such as new strategies, new business processes, new organisational structures and better worker skills.

There is now growing agreement about the positive contribution of ICT to productivity growth. Through the application of ICT firms will become more competitive, new markets will be accessed and new employment opportunities created. All of this will result in the generation of wealth and sustainable economic growth. The contribution of ICT capital to output and labour productivity growth has been significant and rising in relative terms. Even so, the majority of developing countries face limitations on the development of their economy stemming largely from low income levels, low literacy rates, lack of payment systems that can support online transactions, and cultural resistance to online trade. Developing countries need to take into consideration that building telecommunications infrastructure is costly. In many cases, countries will need inflows of foreign direct investment (FDI) to improve domestic infrastructure. This means that, in addition to establishing a well-regulated telecommunications market, they also need to put in place policies to ensure an appropriate investment climate for foreign service providers.⁹ In order for ICT investment to be fully effective, it has to take advantage of network externalities. This requires a large enough number of people and organisations to make the investment and become connected to the network. But, this is not enough.

⁶ Cantor, P., (2006). Economic and cultural globalization, the Independent Review, v. XI, n, 4, ISSN 1086-1653.

⁷ UNCTAD, 2003

⁸ Straub, M., (2003). E-commerce and Development: Whose development?, The electronic Journal on Information System in Developing countries. Available at <http://www.is.cityu.edu.hk/research/ejisd/vol11/v11c2.pdf> Accessed on 7/10/ 2005.

⁹ UNCTAD. 2003

Network externalities are fully exploited only when those using ICT communicate among themselves effectively, rapidly and efficiently. This, in turn, requires that users share similar levels of technical, analytical, and “problem solving” skills.

4. ECONOMIC OVERVIEW OF LIBYA

When Libya gained its independence in 1951, the economy was based mainly on agriculture, which employed more than 70 percent of the labour force and contributed about 30 percent of the GDP. Before the discovery of oil and gas, Libya was one of the poorest countries in the world. However, by 1961, substantial quantities of oil had been discovered and greatly supported the country's social and economic development. The discovery of oil in 1959 has transformed Libya from a poor nation at the time of its independence, to a far more prosperous one, ranking 12th among petroleum producers. Therefore, Libya's economy is heavily dependent on the oil sector, which accounts for over 50 percent of GDP, about 95 percent of foreign exchange earnings, and 75 percent of government revenue. After the revolution in 1969, the 1969 constitutional declaration vested sovereignty in the people.

The aim of the state was to realize socialism and to liberate the national economy from foreign dependency. A socialist approach was adopted in Libya after Colonel Qadhafi's revolution, a trinity of freedom, socialism, and unity, depicting socialism as the solution to the economic problems of humankind. Libyan was doctrinal, as opposed to pragmatic, and highly nationalistic in a region where socialism and nationalism often have been found together.¹⁰ After the socialist approach was implemented, the public sector in Libya dominated activities. In the most radical of the measures, all private property rights were eliminated in March 1978. In later years, most private trading, retail and wholesale, was abolished. The only type of private sector activity that the government did not actively seek to eliminate was small service firms (mostly self employed), which were not viewed as inherently exploitative. The central bank's credit policy was supporting the government's policy to minimize the effect of private business by limiting credit availabilities to the private sector and directed it instead to the state entities. However, private investment and ownership were encouraged in the agricultural sector. The last phase of the socialist period was characterised by an intensive effort to build industrial capacity targeting diversified processes. In 1988, Libya took some steps towards liberalisation with greater scope allowed to private enterprise, small scale industries and agricultural business. In September 1992, a privatization law was passed, but this initiative had no impact on the structure of the economy's revenues and caused a serious decline in the economic activity. Now with a relatively small population, the substantial oil revenues gave Libya one of the highest per capita GDPs (US\$6,800 in 2005) in Africa.¹¹ Libya has 100 billion barrels of proved oil reserves and around 40 trillion cubic feet of gas reserves. The cost of recovering the oil is low and the country is well located for exporting to Europe.¹²

E-commerce is the concept of conducting trade and retail business online through the use of secure websites. It constitutes the exchange of products and services between businesses, groups and individuals. E-commerce technologies allow for instant access to more data and opportunities than ever before because they extend across the globe and reach people in almost every nation. With the immense networking and telecommunications capabilities of e-commerce, most companies can be very profitable ventures. The ability to promote and sell products and services online allows even the smallest firms to profit with very little capital or overhead. With the latest computerisation and IT Internet technology, the future of international business for all personal or commercial investment companies involves e-commerce and all it

¹⁰ Country review, (2006). Libya, available online at <http://www.eulerhermesaktuell.de/de/dokumente/country-review-libya-20090605.pdf/country-review-libya-20090605.pdf> accessed on 12/09/ 2008

¹¹ Country Review, 2006

¹² National Oil Corporation, 2005

has to offer. There are three main issues within e-commerce, including immediate access to unlimited information, upgrading of daily business activities due to computerisation technology and the opportunities provided by e-commerce that allow for personal or business involvement through the Internet.¹³

E-commerce should increase the efficiency of Libya's economy to make their products higher quality and their customer-service more efficient. Additionally, it should also create artificial barriers that the Libyan society will have to find ways to solve by adjusting their business practices to accommodate them. E-government initiatives should enhance the effectiveness and efficiency of the Libyan government and improve its relationship with the public and private sectors of the local economy. E-commerce is rapidly changing the foundation of the Libyan government policies and improving their online communication strategies for expanding their economy. According to Business Middle East (2002), rising demand in fixed-line, mobile and Internet service, Libya has a long way to go to catch up with its poorer neighbours like Egypt and Tunisia. The Libyan government owns and operates both the fixed-line and mobile network systems. The postal system is also nationalised with post-office boxes in all the large towns. According to The General People's Committee for Tourism (2006) international postal services to Libya can be slow. The average time for airmail is around 7 to 12 days. Surface mail can take considerably longer. There is no guarantee that mail will be delivered, therefore using a good courier service for delivery for business correspondence is recommended.¹⁴ The country has only around 605,000 fixed lines for a population of 6.3 million, and only 40,000 mobile users (a penetration rate of less than 1 percent) and 10000 Internet service subscribers. The same issue applies to mobile technology; the Libyanna Mobile Technology Company argued that the subscriber numbers to its service exceeded one million, where dial-up subscribers according to LTT internal documentation reached 55,000 in 2006. Generally growth and development are slow.

5. CONSLUSION

The study of economic development is one of the newest, most exciting, and most challenging branches of the economics and political economy. Economic development deals with social, political and institutional mechanisms, both public and private, to bring rapid and large scale improvements in the standard of living for people of Africa, Asia, and Latin America. Measuring economic development is a difficult process. Existing attempts to assess national development are still suffering from conceptual and measurement challenges. This has led to a literature that is, in general, excessively focused on economic development without connection to the capabilities of those institutions to expedite economic development of citizens. However, the global disparities in access to the Internet and other ICTs have led to a 'digital divide' between wealthy and poor nations.

The post-World-War II literature on economic development has been dominated by four major and sometimes competing strands of thought; The linear stage of growth which includes Rostow's Stages of Development; theories and patterns of structural change; the international dependence revolution and new classical, and free market counter-revolution. The emergence of a fifth approach (new or endogenous theory) has been witnessed. It was primarily an economic theory of development in which the right quantity and mixture of savings, investment, and foreign aid were all that was necessary to enable Third World nations to proceed along an economic growth path that historically had been followed by the more developed countries. Technology adoption is not something that just happens to economies, it is a process that

¹³ Coppel, J., (2000). E-Commerce: Impacts and Policy Challenges, Working Paper No. 252, Paris: OECD Economics Department, mimeo, June 2000.

¹⁴ The General People Committee for Tourism, 2006; eBiz Libya, 2007

countries need to consciously and actively promote and nurture. The more rapidly a technology is able to be adopted to work in an economy, the more rapid will be the pace of economic growth. The successful introduction of technology into domestic production processes in any country requires a domestic scientific establishment capable first of understanding, processing and adopting foreign-produced technological knowledge to local conditions and secondly recognising the potential and dangers of its own discoveries when applied to the domestic economy. However, developing countries may face challenges in adopting technologies because of the shortage of economic drivers such as a mobile and highly educated labour force and a favourable climate for enterprise. E-commerce forms part of a broader process of social change, characterised by the globalisation of markets, the shift towards an economy based on knowledge and information, and the growing dominance of technology.

In order to allow a smooth transition to e-commerce, investments are required in the social infrastructure and skills to allow the use of the technology in a way that is compatible with the local circumstances, cultures and abilities of users in developing countries. E-commerce provides developing country producers with opportunities for accessing new international markets at low cost and minimal capital investment, for improving competitiveness and customer services, and for reducing transaction costs and overheads. It also enables producers to overcome traditional limitations associated with restricted access to information, high market-entry costs, and isolation from potential markets. Being part of global e-commerce processes requires knowledge of many complex systems including online promotion, international payments and shipping that are beyond the current limited capacity of most businesses. An increasing number of developing countries have followed the example of developed countries and launched their own national ICT programmes and strategies. These cover a broad range of policy areas, such as awareness raising, infrastructure building, telecommunications deregulation, education and labour force training, changes in legislation, and e-government, yet they have failed to adopt it successfully. Developing countries need to take into consideration that building telecommunications infrastructure is costly. For Libya, e-commerce is rapidly changing the foundation of the Libyan government policies and improving their online communication strategies for expanding their economy. Even though, Libya has a long way to go to catch up with its poorer neighbours like Egypt and Tunisia. The government owns and operates both the fixed line and mobile network systems. The postal system is also nationalised. International postal services to Libya can be slow and there is no guarantee of delivery. The country with a population of 6.3 million has only around 605,000 fixed lines, one million mobile users, 55,000 dial-up subscribers in 2006. Most of the Internet services in the country are delivered by the Libya Telecom and Technology Company (LTT) the only authorised Internet service provider in the country. The charge of the service in Libya is high compared to other service providers. However, the cost of Internet connection is falling dramatically. Internet users are mainly young people and teenagers who surf the Internet mostly for leisure and entertainment. Developing countries have a long way to go in order to catch up with the developed countries, therefore the researcher critically evaluates some of the issues that Libya is facing while adopting e-commerce.

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ENTERPRICE IN TURBULENT ENVIRONMENT: THE LEGAL ENVIRONMENT OF BUSINESS

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ABSTRACT

There are, nowadays, two concepts, very often confronted: neo-liberal concept of economy and free market (Welfare state), on one side, and concept of state of public services and protection of public interest, on the other side. Therefore, the task of law science (doctrine), as well as the whole jurisprudence (judicial cases and materials, firstly) is to find new or improve the existing institutions, and permanently enforce them, in order to protect civilisation achievements, primary principle of legality and government of laws, protection of the democratic civil society and concept of citizens i.e. customers, including enterprises, corporations. The principle of legality requires bringing out the high quality regulations. In this process, besides representative bodies (parliament), executive power is also included, prescribing statutory acts like: executive orders, codes of rule, instructions. The example is aviation industry being the industry founded on "licences an approval" system and supervision of the government. But, without a support of the whole society (associations, movements, organizations), the fulfilment of these assignments would not be possible, and concept of the open administration, concept of society of progress, concept of the society of future would be just on "idea" level. These concepts resume the exchange of information primary in relation government-customer.

Keywords: *administration, customer, citizen, free market, jurisprudence*

1. INTRODUCTION

Civil society and its intensive development in XVIII an XIX century has been promoted the liberal principle in the field of economic doctrine. This principle has been positioned in the very center of economy primery private iniciative and then general protest against any intervention of the state in economy.

At the same time the general protest against numerous limitations and autocracy of the titulars of some specific functions of power has been articulated into the declarations, primery Declaration of rights of individual and citizen on 1789, and constitutions as well.

Liberated processes after World War II brought on the founding of the new countries originated from dictatorial and autocratic regimes. In these new countries the respect of human rights gained the significance, being inaugurated into the essential element of modern constitution. [Radovanovic S, 2009:8]

The intensive development of the democracy and the civil societies nowadays recovered forced development of the neo-liberal approach to economy and enforced the concept of the Welfare state. Not deniing the significance of economic, social and culture rights, which subsumed some intervention of the state in order to protect some economic directions as well as the fulfilment of the general needs of the society, the appearance of the rights of third generation ment conquer of the new list of human rights, marked as a complex requests for rights: "right of development, piece right, environmental rights" [Markovic R., 2009:461], as well as the right of free economy. Free economy appears in addition to the economic rights and freedoms, but developed into the value by itself, being univercally protected. At the end of the day, this resulted to the global liberate economic activity, different from the state regulated one. Therefore, the acquisition of the goods becomes not only exclusive value for the individuals, but strategic goal for some enterprices, corporations, even some states. It has been noticed that,

nowdays, some of the economic branches, previously auxiliary, transfer to the new industries, like IT industry, aviation industry, food production and distribution, energy production and distribution etc. These industries generate huge revenue. One of them, aviation industry, has been developed into the industry separate from the transportation, which revenue includes not only a) the income of the transportation, being direct one, b) but also, as a result of the liberalisation of the market in this area, initiate development of the high and expensive technologies like aircraft manufacturing, ground handling equipment, navigation systems etc. and c) employ huge “army” of the personnel in transportation as well as in various services sector (passenger, goods, ticketing, handling, aviation services ...).

Constitutional protection of such a concept of free market and free economy, asks for the parallel protection of the principle of legality and government of laws. Therefore, technology development as well as the global expansion of the capital investments, including its specific interests, increasing environmental and general security requests brings the process of “gathering legal statutes” [Krbek I.a, 1960:151] necessary for the free flow of the goods and capital.

The principle of legality, thus, requires bringing out the high quality regulations and the simultaneous development of institutions, as its supportive element, for the protection of the constitutionally defined values and interests. In this process not only the representative bodies (parliaments), being leading ones, are included. Namely, it has been noticed that in certain number of corporations and institutions, state capital is still taking part. There are also some other means of state intervention: in some economic activities, mostly above mentioned high revenue activities, states keep the role of regulator, prescribing the conditions for the performance of such activities, through giving licences and approvals. Aviation industry, again, may be representative for such state activities, being the industry founded on the “ licences and approvals” system. Unlike other industries, in which the term of validity of such licences and approvals is relatively long term or even permanent, including, of course, supervision from time to time, in the aviation industry these licences and approvals are issued for a short term, some of them on a year basis. It is the rule not only for the airline operators, but for the personnel in particular, whose licences are subject to constant extension and supervision.

Due to above expressed, apart from the representative bodies, executive power is also authorised to prescribe numerous and high quality general instruments, to execute laws: executive orders, codes of rules, instructions. That means that, in contemporary conditions, due to process of gathering legal statutes and the lack of time of representative bodies, there arises the need for executive power to be engaged at the same task: due to high skilled and specialisation requests, and engagement of the experts and expert teams, statutory activities in favour of executive power is commonplace, owing to its “specialisation, speed, flexibility, elasticity” [Krbek I.a, 1960:151].

2. CUSTOMER (ENTERPRISES, CORPORATIONS) ORIENTATION

As previously exposed, the principle of legality necessary brings us back to the significance of the institutions, firstly, to the institution of the administrative procedure, being “ guarantee of vivification of the principle of legality in serving the administration” [Dimitrijevic P, 1983:229].

A) Administrative procedure rules formally appeared just at the beginning of the XX century “ primary through judicial review of those acts” [Borkovic I., 1984:327], as a confirmation of the position of the Prof. Ivo Krbek that “ the most basic procedural instruments have been developed from the rights (legal situations) of the parties” [Krbek I.b, 1960:229].

In every democratic society the protection of the particular rights or legal interests (of the parties, being individuals or legal entities, enterprises, corporations) becomes the aim “par excellence” of every state acting. In that light, the administrative organ (authority), bringing on

the decision for every and each particular right or legal interest, acts and has the position very similar to judicial function. For that reason such a disposal of administrative organ in anglo-saxon systems is marked as “quasi judicial function” [Stjepanovic N., 1972:430].

However, the author Robert Catherine notices that the ideal of the state, being the essence of the governing and administration, has not been achieved in the European Community and in France yet. The state is, being the essence of the governing, observed through institutions (bureaux) and through statutory implementation [Catherine R., 1973:33]. This author also considers the enforcement of laws as national loyalty, which is pure principle of legality, subsumed by the expression national consciousness. Without national consciousness the state cannot be legal. It is not state of government of laws with the “national sentiment” [Catherine R., 1973:138].

B) At the level of the European administration that loyalty to government is limited to the dimensions of “customer orientation” [NISPACEE, 1999:66] of the government (Citizen Relations). That means if the technical services are observed, the responsibility of the high official almost does not exist, but, if there is any political implication of the governmental decision, the high official must serve the Nation (la collectivite nationale) [Catherine R., 1973:125]. In other words, in order to avoid stereotype that the government is the “worst manager” [NISPACEE, 1999:69], the government has to stay away from the monopolistic position and make “balance of interests” [NISPACEE, 1999:69] between administration and customers i.e. citizens.

However, to be declared as customer oriented government, slogan “Client is the king” [NISPACEE, 1999:66] is not enough, and the government would be considered incapable if it cannot fulfil the legitimate expectations of the individual groups. Such relationship is purely formal and prevents improvement. Therefore, customers (individuals, enterprises, corporations) must take over the part of the responsibility, to enforce their own capacity in order to be suitable to receive from government the certain quantity of services and goods [NISPACEE, 1999:66]. On the other side, standardisation of rights and obligations through settlement of the issue in the legal administrative procedure, affords their “bargaining power” [NISPACEE, 1999:66], but, at the same time, puts an accent to their monopolistic position, establishing formal relation which results with catastrophe in the relation government-customer. In fact, there is one permanent relationship which includes improving the personal relations and mutual confidence, being key moment in harmonization of the relations. Such harmonisation initiates “feed back” [Catherine R., 1973:459] effect, based on famous american formula of persuasion and comprehension. The main point is that the citizen i.e. customer (enterprise, corporation) understands what difficulties, efforts, and means are included in one certain governmental service, and this could be achieved by exchange of informations at both sides, first of all in the relation government-customer [NISPACEE, 1999:69]. This is the concept of the “open administration” (un administration ouverte) [Catherine R., 1973:455].

C) This concept includes the thoughts of system of education and nomenclature of working positions, abandoning the experiences of the rich countries to appoint at this positions personnel educated at certain schools and universities as privileged, preventing, by this, optimal distribution of human resources [Horvat B., 1979:45]

D) The function of unions would not be neglected, especially in the field of technical conditions and giving licences to employees [Catherine R., 1973:453]. In this process unions primary elaborate material of the subjects and, by this, open the decision making process towards outside. Thus, the unions become speakers of the citizens and the customers (enterprises, corporations).

E) Qualified personnel, above mentioned, will eliminate the behaviour of public services administration as their own feu, closed for any initiative, where problems in functioning are transferred to services and professional structures only, and where appears the space for big

corporations and their requests “for specific treatment of power” [Catherine R., 1973:452]. This is the the reason for the expose being obligatory part of the decision of administration organ, including the explanation of the reasons for certain measures of administration [Catherine R., 1973:459]. By this manner administration becomes partner of the citizens and customers (enterprises, corporations), gaining the credibility necessary for reformation inside the hierarchy.

F) The problems of the public sector and requests of big corporations lead us to the specific analogy between corporative organisation of the public sector and big corporations. Unlike state enterprises organised “as a government department” [Horvat B., 1984:198], mostly in telecommunications, railways, power stations, national airlines etc. [Horvat B.,1984:197] there are participatory corporations in public sector, organized to participate at the market. The government and the unions jointly appoint management. Cooperation with workers and unions in appointing management increases efficiency and eliminate strikes. This because of “natural representation” [Catherine R., 1973:445] in the process of osmose between governmental departments and clients (customers). The participatory corporations have financial independence and worker’s wages depend on the success of the firm, but they are obliged to keep value of invested capital intact, whatever the sources of investments [Horvat B., 1984:199].

G) Constant enforcement of government of laws must be supported by the achievements of law science: principle of final decision, right of appeal as a civilisation value in all the communities and for all nations, legal protection of common interest, principle of legality, judicial review. This list of scientific values assumes the efficient, skilled and well organised judicial power.

3. CONCLUSION

Neo-liberal economy and the concept of the state-cooperation, the very opposite of the state of the public services and protection of common (public) interests, promote one main goal – acquisition of the goods and investments for the stable and efficient governing of the state, neglecting very often, common needs and interests, and breaching the principle of legality and government of laws. At the other side are human rights and freedoms, including the right of free economy, customer orientation of administration and concept of open administration, optimal distribution of qualified personnel (human resource), support of the unions, institute of the obligatory expose in the decisions of administration organs (authorities), participatory corporations in public sectors, scientific values of law science, judicial review and efficient, skilled and well organised judicial power, as the institutions of the credible legal frame for protection of individual rights and interests, as well as the common interest, which could make balance between requests for efficiency at one side and the gathering regulations at the other hand. But the final protection of these values belongs to open society with the open administration, society of the progress, society of the future, based on the whole community, including all kind of associations, organizations, formal or informal, movements, referendums etc. This concept subsume “feed back” between institutions and citizens, customers (enterprises, corporations), wordly open administration. Without this synergy the level of achieved democratic values could be easily endangered due to technology development and complex general social development.

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CULTURAL RESOURCES AND THE COMPETITIVENESS OF THE TRAVEL AND TOURISM: INSIGHTS FROM THE LAST DECADE

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ABSTRACT

The cultural heritage, together with the cultural goods and services provided by the various public and/or private operators, as results of their cultural, artistic and/or creative activities, represent one of the categories taken relatively recent into consideration when discussing the employment and contribution of the various sorts of resources to the sustainable development of the local communities or of the society as a whole. Capitalization of the cultural resources continues to be a real challenge for the communities and the organizations owning them, as both have to cope with a rather poor awareness accompanied by a significantly limited interest of the potential audience and, in the same time, with relatively low self-capabilities in terms of promoting and seizing the related opportunities. The travel and tourism industry is one of the main capitalizers of the cultural resources by providing the tourists - potentially interested consumers of cultural heritage, goods and services - opportunities to discover, explore, experience and enjoy cultural heritage places, objectives, objects, related services and/or activities. Paper aims to assess the contribution of the cultural resources - defined in terms of the number of the World Heritage cultural sites, oral and intangible cultural heritage and cultural and entertainment tourism digital demand - to the competitiveness of the travel and tourism industry, described through a set of specific variables, based on the secondary data provided by the World Economic Forum and World Tourism Organization, at the level of the top 20 tourist destinations in the World and in the last decade.

Keywords: Cultural resources, Sustainable development, Travel and tourism competitiveness

1. INTRODUCTION

According to UNESCO, the cultural heritage as the legacy of physical artefacts and intangible attributes of a group or society that are inherited from past generations, maintained in the present and bestowed for the benefit of future generations. The cultural heritage includes two main categories:

- tangible heritage, consisting of *monuments* (architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of outstanding universal value from the point of view of history, art or science), *groups of buildings* (groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science), and *sites* (works of man or the combined works of nature and man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view), (UNESCO, 1972);
- intangible heritage consisting of practices, representations, expressions, knowledge, skills – as well as the instruments, objects, artefacts and cultural spaces associated therewith – transmitted from generation to generation, that communities, groups and, in some cases, individuals recognize as part of their cultural heritage, having as main forms of expression oral traditions and expressions, including language, performing arts, social practices, rituals and festive events, knowledge and practices concerning nature and the universe, and traditional craftsmanship. (UNESCO, 2003).

The common reference of the tangible and intangible cultural heritage is represented by the ways human beings tend to appreciate, experience and share its value: if the literature approaching the topic has initially agreed that people should share the same and appreciate in an identical manner the specific and extraordinary places due to their intrinsic, unchanged in time, value, nowadays the vision of Bourdieu (1984), according to which people appreciate and experience differently the art and heritage based on their academic, personal and socio-economic background tends to become prevalent (Labadi, 2013).

Cultural heritage can be considered and employed as a resource capable to support the sustainable development at the local, regional, national or global level. Throsby (2009) has introduced the concept of “cultural capital” stating that any heritage object can be seen in economic terms as a capital asset that embodies a distinguishing economic value beside the cultural value it possesses. While the economic value can be defined and expressed in financial terms, the cultural value should be assessed considering its particular dimensions associated to the heritage asset: aesthetic (visual beauty), spiritual (significance in terms of religion or religious traditions), social (role in forming cultural identity or connection with others), historical (connections with the past), symbolic (repository or conveyor of meaning), authenticity (uniqueness of experiencing).

Initially connected mainly with the conservation of the historic sites, monuments and landscapes, sustainability has become an increasingly important consideration in the employment and assessment of how significantly cultural heritage contributes to the broader efforts to create sustainable societies and determined a competition with the tourism and development interests leading to the promotion of the concept of sustainable tourism (Barthel-Bouchier, 2016).

Recognized as a distinctive category in the late 1970s, cultural tourism has been conceptualized considering tourism-derived, motivational, experiential or aspirational and operational definitions as a tourism activity in which a destination’s cultural or heritage assets are presented for the consumption of tourists, involving four elements: tourism, use of cultural heritage assets, consumption of experiences and products and tourists (McKercher, du Cros, 2011). As a form of cultural tourism, heritage tourism refers to travelers seeing or experiencing built heritage, living culture or contemporary arts, encompassing a multitude of motives - the desire to enhance one’s own cultural self, to learn something new, to spend time with friends and family, to satisfy one’s curiosity or simply to use excess time, resources - tangible and intangible found in rural and urban settings and experiences, different from an individual to another and for every place visited (Dallen, 2011).

Assessment of the tourist destinations’ competitiveness may leave from the pillars represented by the available natural resources, climate and culture (Lumsdon, 1997), to which elements concerning the existing infrastructure, political stability and currency fluctuation can be added, together with some factors that may affect the competitiveness, such as violence, natural catastrophes, adverse environment factors and overcrowding (Kotler, Bowen, and Markens, 2006). Analysis of the tourist destinations competitiveness may also take in consideration geographical location, environmental and physical conditions, demographics, existing tourist attractions, images perceived and associated with the tourist destination, tourism resources – natural, cultural, activities, infrastructure and services (Ejarque 2005). Other characteristics of the competitive tourist destinations, which may be considered in the approach of measuring the related travel and tourism industry’s competitiveness, refer to the ability to increase tourism expenditures, to increasingly attract visitors, to provide satisfying and memorable experiences - in a profitable manner - to the tourists, to contribute to the enhancement of the well-being of destination residents and, last but not least, to preserve the natural resources for the future generations (Brent Richie and Crouch, 2003). The World Economic Forum assesses the competitiveness of the travel and tourism industry based on four broad factors further divided

in 14 pillars (*enabling environment* - business environment, safety and security, health and hygiene, human resources and labor market and ICT readiness; *travel and tourism policy and enabling conditions* - prioritization of travel and tourism, international openness, price competitiveness, environmental sustainability; *infrastructure* - air transport, ground and port, and tourist service; and, finally, *natural and cultural resources* - natural resources, cultural resources and business travel. Seen as one of the “principal reasons to travel”, cultural resources represent one of the pillars of the travel and tourism industry’s competitiveness.

2. METHODOLOGICAL NOTES

Data provided by the World Economic Forum reports on the travel and tourism industry’s competitiveness and World Tourism Organization have been employed in order to assess the connections between the cultural resources and the competitiveness of the travel and tourism industry at the level of the most important 20 tourist destinations of the World. The research framework employed as reference the conceptual background proposed by Bălan, Balaure and Vegheş (2009), adapted to the improved content of the World Economic Forum 2017 Report on the Travel and Tourism Competitiveness.

A set of nine variables has been considered: the overall competitiveness of the travel and tourism industry (as expressed by the Travel and Tourism Competitiveness Index); the variables describing the “cultural resources” (number of the World Heritage cultural sites, number of the oral and intangible cultural heritage expressions, and the intensity of the online search for cultural and entertainment tourism information); the variables describing the performances of the travel and tourism industry (international tourist arrivals, international tourist inbound receipts and the average receipts per arrival); finally, the variables describing the contribution of the travel and tourism industry to the sustainable development of the host economies (contribution to the GDP formation and employment, expressed as percentages).

Associations between the variables have been measured using the Spearman’s rank-order rho correlation coefficient in order to assess the connections between the:

1. overall competitiveness of the travel and tourism industry and (1.1.) the international tourist arrivals, (1.2.) the international tourist inbound receipts, (1.3.) the average receipts per arrival;
2. overall competitiveness of the travel and tourism industry and (2.1.) industry’s contribution to the GDP formation, (2.2.) industry’s contribution to the employment;
3. overall competitiveness of the travel and tourism industry and (3.1.) the number of the World Heritage cultural sites, (3.2.) the number of the oral and intangible cultural heritage expressions, (3.3.) the online search for cultural and entertainment tourism information;
4. number of the World Heritage cultural sites and (4.1.) the international tourist arrivals, (4.2.) the international tourist inbound receipts, (4.3.) the average receipts per arrival, (4.4.) travel and tourism industry’s contribution to the GDP formation, (4.5.) travel and tourism industry’s contribution to the employment;
5. number of the oral and intangible cultural heritage expressions and (5.1.) the international tourist arrivals, (5.2.) the international tourist inbound receipts, (5.3.) the average receipts per arrival, (5.4.) travel and tourism industry’s contribution to the GDP formation, (5.5.) travel and tourism industry’s contribution to the employment;
6. online search for cultural and entertainment information and (6.1.) the international tourist arrivals, (6.2.) the international tourist inbound receipts, (6.3.) the average receipts per arrival, (6.4.) travel and tourism industry’s contribution to the GDP formation, (6.5.) travel and tourism industry’s contribution to the employment.

Table 1. Travel and tourism industry: competitiveness, cultural resources, performances and contribution to the sustainable development in the top 20 tourist destinations of the World

Countries	TTCI	WHCS	OICH	CETD	ITA	ITIR	ARA	T&TGDP	%	T&TEmp	%
Spain	5,43	41	16	83	68521.2	56468,0	824,1	68843,9	5,8	937.2	5,2
France	5,32	39	15	92	84451.6	45920,0	543,7	89156,5	3,7	1170.3	4,2
Germany	5,28	38	2	78	34971.4	36867,3	1054,2	130746,0	3,9	3010.5	7,0
Japan	5,26	16	21	79	19737.4	24982,6	1265,8	106659,0	2,6	1222.5	1,9
United Kingdom	5,20	26	0	79	34435.8	45463,6	1320,2	103740,0	3,7	1791.2	5,3
United States	5,12	11	0	34	77510.2	204523,0	2638,7	487967,0	2,7	5633.1	3,8
Australia	5,10	5	0	66	7444.4	28871,8	3878,3	34571,9	2,8	516.3	4,4
Italy	4,99	47	7	71	50731.7	39449,2	777,6	76286,3	4,2	1118.9	5,0
Canada	4,97	8	0	29	17977.2	16557,8	921,0	28498,4	1,8	657.5	3,7
Switzerland	4,94	9	1	24	9304.6	16361,1	1758,4	13844,2	2,1	141.7	2,8
Hong Kong	4,86	n/a	n/a	46	26686.0	36150,2	1354,6	25020,7	8,0	327.9	8,6
Austria	4,86	9	4	16	26718.9	18218,0	681,8	20458,0	5,5	261.1	6,1
Singapore	4,85	1	0	67	12051.9	16743,4	1389,3	13936,4	4,8	158.3	4,3
Portugal	4,74	14	6	28	10140.1	12705,0	1252,9	12562,7	6,4	362.7	7,9
China	4,72	37	39	82	56885.7	114109,4	2005,9	224005,0	2,1	22489.6	2,9
New Zealand	4,68	1	0	22	3039.0	9049,7	2977,8	8639,7	5,1	208.5	8,8
Netherlands	4,64	9	0	18	15007.0	13210,9	880,3	13861,0	1,8	434.8	6,0
Norway	4,64	7	1	11	5361.0	4951,8	923,7	12514,9	3,2	144.6	5,5
Korea, Rep.	4,57	11	21	17	13231.6	15214,3	1149,8	24187,6	1,8	561.1	2,2
Sweden	4,55	14	0	14	10522.0	11322,1	1076,0	12147,0	2,5	179.7	3,7

Notes: TTCI - Travel and Tourism Competitiveness Index; WHCS - no. of World Heritage Cultural Sites; OICH - no. of Oral and Intangible Cultural Heritage expressions; CETDD - Cultural and Entertainment Tourist Digital Demand; ITA - International Tourist Arrivals (thousands, 2015); ITIR - International Tourist Inbound Receipts (million US\$, 2015); ARA - Average Receipts per Arrival (US\$); T&T GDP - Travel and Tourism industry contribution to the GDP formation (million US\$ and as percentage); T&T Emp - Travel and Tourism industry contribution to the Employment (thousand of workplaces and as percentage). Sources: World Economic Forum and World Tourism Organization (UNWTO).

3. MAIN FINDINGS

Assessment of the associations between the competitiveness of the travel and tourism and the performances generated at the level of the industry in terms of the international tourist arrivals, international tourist receipts and the average receipt per arrival has indicated relatively strong connections between the competitiveness and number of the arrivals of international tourists ($r=0.6226$), respectively the receipts generated by the international tourists ($r=0.7383$) and a less significant and inverse correlation between the competitiveness and the average receipt per arrival ($r=-0.1368$).

A more competitive travel and tourism industry appears to be capable to attract an increasing number of international tourists and to generate more important revenues as a result of the more consistent flow of international tourists. An increased degree of competitiveness does not necessarily mean high average receipts per arrival: while the number of the international tourists is an important indicator of how attractive a destination is, the revenues generated by these tourists seem to contribute more to the competitiveness of the travel and tourism industry at the level of that destination.

Assessment of the associations between the competitiveness of the travel and tourism and the contribution of this industry to the sustainable development of the host economies has indicated

a rather less significant connection between the degree of industry's competitiveness and its weight in the gross domestic product ($r=0.2624$), respectively in the total employment ($r=-0.0410$) at the level of the considered tourist destinations.

A more competitive travel and tourism industry may contribute, to a certain extent, to the sustainable development of the economy mainly through generating a more important part in the overall GDP of the host country. An increased competitiveness of the industry may also have an impact over the employment within the field and at the level of the entire economy. Yet, this impact should be carefully assessed as an increased competitiveness seems to be associated with a reduction in terms of employment, which may determine negative social and economic effects over the sustainable development of the host country.

Assessment of the associations between the competitiveness of the travel and tourism industry and the cultural resources in terms of the number of the World Heritage cultural sites, the oral and intangible cultural heritage expressions and the cultural and entertainment tourism digital demand has indicated more or less significant, yet relevant connections.

A higher number of World Heritage cultural sites makes a destination more attractive for the international tourists and contributes in a significant manner ($r=0.5057$) to the performances and overall competitiveness of the travel and tourism industry of a host country. Top tourist destinations of the World capitalize the competitive resource represented by the cultural heritage, particularly by the cultural sites of outstanding universal value included on the list issued by the World Heritage Committee.

Consideration of the intangible heritage - practices, representations, expressions, knowledge, skills, together with the associated instruments, objects, artifacts and cultural spaces - as a valuable component of the cultural heritage and, more, as a potential cultural resource to be capitalized, even by the travel and tourism industry, is a more recent concern (the List including intangible cultural heritage has been open in 2003, while the List of World Heritage cultural sites has been inaugurated in 1978). This may be a possible explanation of the less significant association ($r=0.2132$) between the cultural resources and the competitiveness of the travel and tourism industry. Still, some of the components of the intangible cultural heritage, particularly oral history, food heritage and digital heritage, provide interesting opportunities for capitalization in the forms of products of cultural tourism and related travel and tourism services.

Consideration of the cultural and entertainment tourism digital demand - an indicator measuring the total online search for the cultural brand-tags "historical sites", "local people", "local traditions", "museums", "performing arts", "UNESCO", "city tourism", "religious tourism", "local gastronomy", "entertainment parks", "leisure activities", "nightlife" and "special events" - as a descriptor (and, also, component) of the cultural resources is the natural consequence of the increasing importance of the Internet in the everyday life of the travel and tourism operators, respectively consumers of travel and tourism products and services. The strong connection ($r=0.7697$) between the competitiveness of the industry and the intensity of online search using destination-specific keywords correlated to tourist activities and attractions confirms the importance of the Internet both as an information source and as transactional medium in the decision making process of buying travel and tourism products and services. More competitive tourist destinations tend to be more (re)searched by the consumers: that is why increasing the competitiveness of the travel and tourism industry (or destination) may be the result of an extended presence of that industry (or destination) in the online environment.

Assessment of the associations between the cultural resources, in terms of the number of the World Heritage cultural sites, the number of the oral and intangible cultural heritage expressions, respectively the cultural and entertainment tourism digital demand, and the performances of the travel and tourism industry in terms of the international tourist arrivals, international tourist receipts and the average receipt per arrival has followed the pattern

indicated by the travel and tourism industry's competitiveness: relatively significant or quite significant connections between the cultural resources and number of the arrivals of international tourists, respectively the receipts generated by the international tourists and less significant and inverse correlations between the cultural resources and the average receipt per arrival.

Table 2. Values of the Spearman correlations coefficients for the selected variables

	ITA	ITIR	ARA	T&T GDP	T&T EMP
WHC	0.7583	0.6057	-0.4259	0.1732	-0.1066
OICHE	0.4325	0.3307	-0.2632	0.1500	-0.2303
CETDD	0.6846	0.8145	-0.0004	0.2333	-0.1632

Notes: WHC - no. of the World Heritage cultural sites; OICHE - no. of oral and intangible cultural heritage expressions; CETDD - Cultural and entertainment digital demand; ITA - International Tourism Arrivals; ITIR - International Tourist Inbound Receipts; ARA - Average Receipt per Arrival; T&T GDP - Travel and Tourism industry contribution to the GDP; T&T EMP - Travel and Tourism industry contribution to the Employment.

A more competitive travel and tourism industry appears to capitalize more effectively the cultural sites, particularly those included in the World Heritage List, attracting more international tourists ($r=0.7583$) and generating more important revenues ($r=0.6057$). The more consistent flow of international tourists tends to determine a relatively significant and inverse connection with the average receipts per arrival ($r=-0.4259$): the value of average receipt tends to decrease with the increase in the number of international tourists visiting the cultural heritage sites. Finding the balance represented by a fair price of accessing and experiencing the cultural heritage sites, as well as for the related travel and tourism products and services (transportation, accommodation, meals etc.) appears to be a real marketing challenge in order to maintain the attractiveness of a destination and, in the same time, to generate appropriate revenues from the flows of international tourists and, consequently, to contribute to the competitiveness of the travel and tourism industry.

Similarly, a more competitive travel and tourism industry appears to capitalize more effectively the intangible cultural heritage, by attracting more international tourists ($r=0.4325$) and generating more important revenues ($r=0.3307$), under the same context of a relatively significant and inverse connection with the average receipts per arrival ($r=-0.2632$): the value of average receipt tends to decrease with the increase in the number of international tourists experiencing intangible cultural heritage expressions. Setting the fair price of accessing and experiencing the intangible cultural heritage expressions is a more challenging marketing challenge due to the particular difficulty to assess the "value" of the intangible heritage, as well as to determine and measure the costs of providing related experiences to the consumers. What really matters for the travel and tourism industry is to acknowledge the importance of the intangible cultural heritage and to increasingly capitalize it by attracting constant flows of international tourists and generating appropriate revenues, in order to increase the industry's competitiveness and to contribute to the sustainable development of the host economy.

An increased cultural and entertainment tourism digital demand seems to improve significantly the performances of the travel and tourism industry by attracting more international tourists ($r=0.6846$) and generating more important revenues ($r=0.8145$), under the context of a rather no connection with the average receipts per arrival ($r=-0.0004$). These results reveal how important is the online search for tourist destinations, attractions, cultural sites and entertainment activities prior to the make the decision regarding where and what will experience the traveler. Also, they express a relatively strong consistency between the what traveler plans and his or her effective tourist behavior.

An increased and constantly improved presence in the online environment of the cultural heritage sites and intangible cultural heritage expressions seems to expand the online search, to stimulate the interest to discover and, later, experience the tangible and intangible cultural heritage and, consequently to support the competitiveness of the travel and tourism industry and to the sustainable development of the host economy.

Assessment of the associations between the cultural resources, in terms of the number of the World Heritage cultural sites, the number of the oral and intangible cultural heritage expressions, respectively the cultural and entertainment tourism digital demand, and the contribution of these resources to the sustainable development of the host economies has indicated rather less significant connections between these resources and the weight of the travel and tourism industry in the gross domestic product, respectively less significant and inverse connections between these resources and the weight of the travel and tourism industry in the total employment, at the level of the considered tourist destinations.

The proper capitalization of the tangible and intangible cultural heritage contributes, through the part of the GDP created, to the increase in the competitiveness of the travel and tourism industry and, thus, to the sustainable development of the economy, with a slight difference in favor of the cultural sites ($r=0.1732$) by comparison to the intangible heritage expressions ($r=0.1500$). An even more encouraging result is that describing the association between the cultural and entertainment digital demand and the weight of the travel and tourism industry in the GDP ($r=0.2333$), which suggests that a relatively important part of this digital demand tends to transform in an effective demand for travel and tourism (mainly cultural) products and services.

Still, the proper capitalization and effective employment of the cultural resources may also have an impact over the employment in the travel and tourism industry and at the level of the entire economy. A more effective capitalization and employment of these resources may lead, on a hand, to an increased competitiveness of the travel and tourism industry, but, on the other hand, to a reduction of the number of workplaces, which may determine negative social and economic effects over the sustainable development of the host economy.

What happened in the last decade at the top of the travel and tourism competitiveness hierarchy? First, a significant methodological change, by extending the number of key factors from three to four, through the separation of the natural and cultural resources as a distinctive category. Then, ranking has changed significantly. If in 2007, the most competitive travel and tourism industries were those from Switzerland, Austria, Germany, Iceland and Unites States, in 2017 the superior part of the ranking is held by Spain, France, Germany (constant on the third position then and now), Japan and United Kingdom. The most spectacular climbings were registered by the travel and tourism industries from China (a remarkable rise of 56 places in the 2017 hierarchy by comparison to 2007), Italy (+25), Rep. of Korea (+23) and Japan (+21), while the most dramatic declines were those of Cyprus (-32), Iceland (-21), Denmark (-20), Luxembourg (-19) and Finland (-17). Japan, Italy, Portugal, China, Norway and Rep. of Korea replaced Iceland, Luxembourg, United Arab Emirates, Denmark, Finland and Cyprus in the top 20 travel and tourism competitiveness index.

Table 3. Top 20 tourist destination of the World in 2007 and 2017 ranked in terms of the competitiveness of the travel and tourism industry (World Economic Forum)

Countries	Travel and Tourism Competitiveness					
	2017		2007		2017 vs. 2007	
	Rank	Index	Rank	Index	Rank	Index
Spain	1	5,43	15	5,18	▲ + 14	▲ + 0.25
France	2	5,32	12	5,23	▲ + 10	▲ + 0.09
Germany	3	5,28	3	5,48	0	▼ - 0.20
Japan	4	5,26	25	4,99	▲ + 21	▲ + 0.27
United Kingdom	5	5,20	10	5,28	▲ + 5	▼ - 0.08
United States	6	5,12	5	5,43	▼ - 1	▼ - 0.31
Australia	7	5,10	13	5,21	▲ + 6	▼ - 0.11
Italy	8	4,99	33	4,78	▲ + 25	▲ + 0.21
Canada	9	4,97	7	5,31	▼ - 2	▼ - 0.34
Switzerland	10	4,94	1	5,66	▼ - 9	▼ - 0.72
Hong Kong SAR	11	4,86	6	5,33	▼ - 5	▼ - 0.47
Austria	12	4,86	2	5,54	▼ - 10	▼ - 0.68
Singapore	13	4,85	8	5,31	▼ - 5	▼ - 0.46
Portugal	14	4,74	22	5,05	▲ + 8	▼ - 0.31
China	15	4,72	71	3,97	▲ + 56	▲ + 0.75
New Zealand	16	4,68	14	5,20	▼ - 2	▼ - 0.52
Netherlands	17	4,64	19	5,08	▲ + 2	▼ - 0.44
Norway	18	4,64	23	5,04	▲ + 5	▼ - 0.40
Korea, Rep.	19	4,57	42	4,58	▲ + 23	▼ - 0.01
Sweden	20	4,55	17	5,13	▼ - 3	▼ - 0.58
Iceland	25	4.50	4	5,45	▼ - 21	▼ - 0.95
Luxembourg	28	4.49	9	5,31	▼ - 19	▼ - 0.82
United Arab Emirates	29	4,49	18	5,09	▼ - 9	▼ - 0.60
Denmark	31	4.43	11	5,27	▼ - 20	▼ - 0.84
Finland	33	4.40	16	5,16	▼ - 17	▼ - 0.76
Cyprus	52	4,02	20	5,07	▼ - 32	▼ - 1.05

An important change at the level of the top 20 of the travel and tourism competitiveness index was that of decrease of the average index from 5.28 (2007) to 4.93 (2017), only five out of 26 countries present in the 2007-2017 hierarchies succeeding to improve their overall competitiveness (China, Japan, Spain, Italy and France), while some of these registered significant losses in this respect (Cyprus, Iceland, Denmark, Luxembourg, Finland and Switzerland).

Table following on the next page

Table 4. Values of the Spearman correlations coefficients for the selected variables

		ITA	ITIR	ARA	T&T GDP	T&T EMP
TTCI	2017	0.6226	0.7383	-0.1368	0.2624	-0.0410
	2007	0.2692	0.2917	<i>nc</i>	0.0774	0.1711
WHC	2017	0.7583	0.6057	-0.4259	0.1732	-0.1066
	2007	0.6673	0.7372	<i>nc</i>	0.0914	0.0259

Notes: TTCI - Travel and Tourism Competitiveness Index; WHC - no. of the World Heritage cultural sites; ITA - International Tourism Arrivals; ITIR - International Tourist Inbound Receipts; ARA - Average Receipt per Arrival; T&T GDP - Travel and Tourism industry contribution to the GDP; T&T EMP - Travel and Tourism industry contribution to the Employment; nc - not calculated.

Analysis of the associations between the competitiveness of the travel and tourism industry, respectively the cultural resources (limited only to the number of the World Heritage cultural sites as the number of oral intangible cultural heritage expressions and the cultural and entertainment tourism digital demand were not measured in 2007 edition of the World Economic Forum Report) and the variables describing the performances of the travel and tourism industry, respectively its contribution to the sustainable development of the host economies reveal an improvement in terms of the correlations between the above-mentioned variables (see Table 5).

In the last decade, the competitiveness of the travel and tourism industry has exerted a more significant impact over, on a hand, the performances generated in terms of the international tourist arrivals and international tourist inbound receipts, respectively, on the other hand, the sustainable development of the host economies in terms of the industry's contribution to the GDP formation and the number of workplaces created.

The cultural resources have exerted a quite similar impact, particularly in terms of the international tourist arrivals and their contribution to the travel and tourism competitiveness and, consequently, to the GDP formation at the level of the host economies. The slight decline observed in case of the association between the cultural resources and the receipts generated by the international tourists did not alter the overall contribution and importance of these resources for the both the competitiveness of the travel and tourism industry and the economic sustainable development.

4, CONCLUSION

The exploratory analysis of the associations between the cultural resources, performances of the travel and tourism industry and contribution of the industry to the sustainable development of the host economies, conducted at the level of the most important 20 tourist destinations of the World, reveals that cultural resources, defined according to the World Economic Forum methodology in terms of the number of the World Heritage cultural sites, number of oral and intangible cultural heritage expressions and the cultural and entertainment tourist digital demand, exert an important impact over the performances and competitiveness of the travel and tourism industry, also providing their contribution to the sustainable development of the host economies. Still, it is rather difficult to discuss the associations between the cultural resources and the competitiveness of the travel and tourism industry in a context in which: (a) the content of the cultural resources is limited to the existence of only two large categories - World Heritage cultural sites and intangible cultural heritage expressions, both registered by UNESCO on dedicated Lists - accompanied by a behavioral dimension (online search for cultural and entertainment tourism related topics); (b) analysis is conducted only at the level of the top 20 tourist destinations of the World. The existing cultural heritage includes much more than cultural sites inscribed on the UNESCO World Heritage Sites: an assessment of the entire content and structure of the cultural heritage is, therefore, mandatory. More, this assessment

should not be limited to a quantitative review of the different categories of tangible and intangible heritage sites and expressions but must also cover qualitative aspects, such as accessibility and attractiveness of these components. Although the most important 20 tourist destinations of the World represent a solid reference for almost any kind of research in the field (as long as they account for almost a half in the total number of international tourist arrivals and 60.1 % in the volume of international inbound tourist receipts), the particularities of the cultural heritage and the demographic, economic, social and cultural differences between the tourist destinations impose an approach that is larger regarding the tourist market covered and more in-depth in terms of the details regarding the cultural resources to be assessed. The results obtained even under the limits of the current research approach prove that cultural heritage, in its tangible or intangible form, represent an important asset of the travel and tourism that, properly capitalized, may generate better performances for the industry, support the sustainable development of the travel and tourism industry's competitiveness, as well as of the entire economy.

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COST AS IMPORTANT FACTOR FOR THE E-BUSINESS IN DEVELOPING COUNTRIES AND LIBYA

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ABSTRACT

In literal meaning words Commerce and Business don't differ much in English dictionary. These two words are written and meant to describe organizations carrying out businesses. The difference between e-commerce and e-business is artificial and necessarily covers electronically transactions or information's. While an e-commerce is the conclusion to a sale or purchase activity through internet with the help of internet banking or credit card gateway, e-business is a continuous process right from initiation of sale offer to after sales customer caring. In practice, e-business is more than just e-commerce. Customer educating, Internet Marketing, researching etc. come under e-business. E-business activities are result of much more organized effort and a wholesome system through internet. It is generally believed that e-business enables developing country producers to overcome traditional limitations associated with restricted access to information, high market-entry costs, and isolation from potential markets. Being part of global e-business processes requires knowledge of many complex systems including online promotion, international payments, and shipping that are beyond the current limited capacity of most businesses. E-business is still in its infancy in many developing countries. Cost is an important factor for the world's e-business in general and for Libya in particular. Reduction of costs using Internet technology is one of the main drivers for e-business in Libya. The results of this research show that e-business reduces the cost of communication and delivery in Libya as elsewhere. The main benefit of e-business is being closer to the customer.

Keywords: *cost, development countries, e-business, Libya*

1. INTRODUCTION

In this modern age of internet almost every progressive business have web presence, some of people think that website is just a commercial requirement but others think that it is mandatory to run their company activities. These different theories about internet have been discussed a lot in recent marketing literature. In the past decade marketers have been arguing about the role of internet in marketing. In the start marketers used internet as communication tool but as time passed they realized the true potential of internet and the idea of e-marketing evolved. Smith and Chaffey (2005) give a short and basic definition of E-marketing as "Achieving marketing objectives through use of electronic communication technology". According to Hoge (1993), Electronic marketing (EM) is the transfer of goods or services from seller to buyer that involves one or more electronic methods or media. E-marketing began with the use of telegraphs in the nineteenth century. With the advent and mass acceptance of the telephone, radio, television, and then cable, electronic media have become the dominant marketing force.

Hoge's (1993) idea of e-marketing is simple but it does not touch the important aspect of customer relationship. Strauss and Ansary (2006) defined e-marketing in there latest book as the use of information technology in the process of creating, communicating, and delivering value to customers, and for managing customer relationships in ways that benefit the organization and its stake holders. This explanation tells that e-marketing is not only about selling products or providing services through IT but it is lot more than that. It is not just traditional marketing using the information technology tools but it's a strategic model to

achieve brand value and provide customer satisfaction. On marketconscious.com (2006), the author simply stress on having a website URL in marketing effort, he recognize that even a conventional marketing effort like magazine or radio adverts are considered as e-marketing if they are promoting a website. This is a arguable description of e-marketing as internet is not the only medium for e-marketing. A very complete definition of e-marketing has been given on an educational website; it says "Moving elements of marketing strategies and activities to a computerized, networked environment such as the Internet. It is the strategic process of creating, distributing, promoting, and pricing goods and services to a target market over the Internet or through digital tools".

2. E-BUSINESS

In the emerging global economy, e-marketing and e-business have increasingly become a necessary component of business strategy and a strong catalyst for economic development. The integration of information and communications technology (ICT) in business has revolutionized relationships within organizations and those between and among organizations and individuals. Specifically, the use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs. With developments in the Internet and Web-based technologies, distinctions between traditional markets and the global electronic marketplace-such as business capital size, among others-are gradually being narrowed down. The name of the game is strategic positioning, the ability of a company to determine emerging opportunities and utilize the necessary human capital skills (such as intellectual resources) to make the most of these opportunities through an e-business strategy that is simple, workable and practicable within the context of a global information milieu and new economic environment On another plane, developing countries are given increased access to the global marketplace, where they compete with and complement the more developed economies. E-business is a term used to describe businesses run on the Internet, or utilizing Internet technologies to improve the productivity or profitability of a business. In a more general sense, the term may be used to describe any form of electronic business that is to say, any business which utilizes a computer. This usage is somewhat archaic, however, and in most contexts e-business refers exclusively to Internet businesses. E-business (electronic business), derived from such terms as "e-mail" and "e-commerce," is the conduct of business on the Internet, not only buying and selling but also servicing customers and collaborating with business partners. One of the first to use the term was IBM, when, in October, 1997, it launched a thematic campaign built around the term. Today, major corporations are rethinking their businesses in terms of the Internet and its new culture and capabilities. Companies are using the Web to buy parts and supplies from other companies, to collaborate on sales promotions, and to do joint research. Exploiting the convenience, availability, and world-wide reach of the Internet, many companies, such as Amazon.com, the book sellers, has already discovered how to use the Internet successfully. The most common implementation of e-business is as an additional, or in some cases primary, storefront. By selling products and services online, an e-business is able to reach a much wider consumer base than any traditional brick-and-mortar store could ever hope for. This function of e-business is referred to as ecommerce, and the terms are occasionally used interchangeably. An e-business may also use the Internet to acquire wholesale products or supplies for in-house production. This facet of e-business is sometimes referred to as e-procurement, and may offer businesses the opportunity to cut their costs dramatically. Even many e-businesses which operate without an electronic storefront now use e-procurement as a way to better track and manage their purchasing. In addition to buying and selling products, e-business may also handle other traditional business aspects. The use of electronic chat as a form of technical and customer support is an excellent example of this. An e-business which uses chat to supplement its traditional phone support finds a system which

saves incredible amounts of time while providing opportunities unavailable through traditional support. By using virtual computer systems, for example, technical support operators can remotely access a customer's computer and assist them in correcting a problem. And with the download of a small program, all pertinent information about the hardware and software specifications for a user's computer may be relayed to the support operator directly, without having to walk a customer through personally collecting the data. Using email and private websites as a method for dispensing internal memos and white sheets is another use of the Internet by e-business. Rather than producing time-intensive and costly physical copies for each employee, a central server or email list can serve as an efficient method for distributing necessary information. In the past few years, virtually all businesses have become, to some degree or another, an e-business. The pervasiveness of Internet technology, readily available solutions, and the repeatedly demonstrated benefits of electronic technology have made e-business the obvious path. This trend continues with new technologies, such as Internet-enabled cell phones and PDAs, and the trend of e-business saturation will most likely continue for some time. E-business means utilizing electronic medium in every day business activities. It is a very broad entity dealing with the entire complex system that comprises a business that uses electronic medium to perform or assist its overall or specialized business activities. There are several levels of involvement in when it comes to e-Business. For example where one organization relies completely on e-business the second one may chose a mixed presence and means of doing business. E-business is the actual process of doing business on the Internet - for example, when you buy a book or CD through Amazon that is e-business as opposed to going across border and buy the same thing (that is just regular business). It refers to online transactions including interactions with business partners, customers and vendors. The interactions are aimed at improving business processes and efficiency. In the present time most organization realizes the importance of Internet and transforming the businesses into an e-business one to maintain the competitive edge. Electronic business, commonly referred to as "e-Business" or "e-business", may be defined as the application of information and communication technologies (ICT) in support of all the activities of business. Commerce constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business. Electronic commerce focuses on the use of ICT to enable the external activities and relationships of the business with individuals, groups and other businesses. When organizations go online, they have to decide which e-business models best suit their goals. A business model is defined as the organization of product, service and information flows, and the source of revenues and benefits for suppliers and customers. The concept of e-business model is the same but used in the online presence. The following is a list of the currently most adopted e-business models such as: E-shops, E-commerce, E-procurement, E-malls, E-auctions, Virtual Communities, Collaboration Platforms, Third-party Marketplaces, Value-chain Integrators, Value-chain Service Providers, Information Brokerage, Telecommunication. There are three primary processes that enhanced in e-business:

1. Production processes, which include procurement, ordering and replenishment of stocks; processing of payments; electronic links with suppliers; and production control processes, among others;
2. Customer-focused processes, which include promotional and marketing efforts, selling over the Internet, processing of customers' purchase orders and payments, and customer support, among others; and
3. Internal management processes, which include employee services, training, internal information-sharing, video-conferencing, and recruiting.

An e-business model must have:

1. Shared digital business infrastructure, including digital production and distribution technologies (broadband/wireless networks, content creation technologies and information management systems);
2. Sophisticated model for operations;
3. E-business management model, consisting of business teams and/or partnerships and
4. Policy, regulatory and social systems-i.e., business policies consistent with e-commerce laws, tele-working/virtual work, distance learning, incentive schemes, among others.

E-business covers online transactions, but also extends to all Internet based interactions with business partners, suppliers and customers such as: selling direct to consumers, manufacturers and suppliers; monitoring and exchanging information; auctioning surplus inventory; and collaborative product design. These online interactions are aimed at improving or transforming business processes and efficiency.

3. E-MARKETING AS A HEART OF E-BUSINESS

Idea of marketing is as old as history of human civilization. The theories concerning e-marketing have not been unified yet, due to a large diversity in specialists' opinions. Still, one of the aspects that is established and has ceased being discussed in contradictory is the fact that electronic marketing first appeared under the form of various techniques used by companies distributing their products through online channels (Internet - based). That happened back in the pioneering age before 1995. Some companies that opened the road were called "e-tailers" (One that sells goods or commodities to consumers electronically, as over the Internet), as opposed to the traditional retailers. During their limited life, these electronic retailers began to develop and frenetically introduced new marketing techniques based on the support offered by the internet.

Following are some of the advantages of e-marketing:

1. Reduction in costs through automation and use of electronic media,
2. Faster response to both marketers and the end user,
3. Increased ability to measure and collect data,
4. Opens the possibility to a market of one through personalisation,
5. Increased interactivity,

Following are some disadvantages of e-marketing:

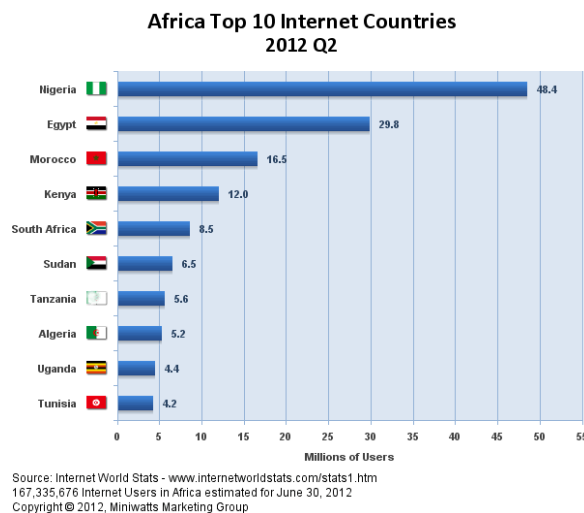
1. Lack of personal approach,
2. Dependability on technology,
3. Security, privacy issues,
4. Maintenance costs due to a constantly evolving environment,
5. Higher transparency of pricing and increased price competition,
6. Worldwide competition through globalisation

E-marketing is the promotion of a company or product on the Internet - for example, a banner or tower ad on a web page (versus an ad on the radio or tv, which is just regular channel marketing). The Internet has been described as the world's least expensive and most effective marketing tool. That's why so many businesses have embraced it. E-marketing is a broader term that describes any marketing activity performed via electronic medium. Interactive Marketing is generally a sub set of e-Marketing that involves a certain level of interaction. You might find as extremely useful and suggestive the perspective offered by the e-marketing Association (eMA). The eMarketing Association (eMA) is the world's largest international association of emarketing professionals. Members include governments, companies, professionals and students involved with the emarketing arena. The eMA provides marketing resources, services,

research, certifications, educational programs and events to its members and the marketing community. The eMA works with a number of organizations, companies and governments on issues related to eCommerce, multi-channel marketing and legislative issues. The eMA has members in over 40 countries around the world, and sponsors or manages over 30 events a year. Over 40,000 marketers have enrolled in eMA online courses and thousands of eMarketing professionals and students have achieved certification status. And at the end, e-marketing is at the heart of e-business ... adding value to products, widening distribution channels, boosting sales and after sales service, while getting closer to customers and understanding them better.

4. E-BUSINESS AND E-COMMERCE IN DEVELOPING COUNTRIES AND LIBYA

A significant amount of the Third World is already partially developed and a sustainable amount of the population has a demographic profile similar to that of the west. The Third World is also a great reservoir of untapped talent, which if helped, would flourish rapidly, joining and contributing to the developed world's economy (UNCTAD, 2003). The use of computers and the Internet for business are not widely understood in many developing countries, let alone e-commerce. Being part of global e-commerce processes requires knowledge of many complex systems including online promotion, international payments, and shipping that are beyond the current limited capacity of most businesses (Cohen, DeLong, and Zysman, 2000). Moreover, during the 'dot-com' bubble, expectations of e-commerce were raised unrealistically high by reports in the mass media and, together with the lack of success of early adopters; many entrepreneurs are now sceptical of its relevance to developing countries. The potential of e-commerce applications to enable access to global markets and to reduce barriers to market entry is a theme which is heavily emphasised in the burgeoning literature on the "promise" of e-commerce for developing countries.



*Figure 1. Africa Top 10 Internet Countries 2012
(Internet World Stats – www.internetworldstats.com)*

Libya is one of the largest countries in North Africa with large oil and natural gas reserves and a consumer market of almost 6 million people. Growth in Africa's Internet and Broadband sector has accelerated in recent years due to improvements in infrastructure, the arrival of wireless access technologies and lower tariffs. Broadband is rapidly replacing dial-up as the preferred access method. This process is already virtually completed in Africa's more developed markets. Electronic based transaction (E-commerce) refers to business transaction in which the parties involved interact electronically to exchanges information. This form of business transaction encompasses buying and selling over the internet

through computer mediated network and encompasses wide range of products and services (Alsmadi, Khan, McTavish, 2011). E-commerce entails the use of electronic communications and digital information processing technology to create, transform, and redefine relationships for value creation between organizations and organizations as well as individuals. Depending on the type of technology involved and the extent of e-commerce integration into business processes, it may constitute part or the entire business processes. E-commerce adoption has proven to be a potential approach for enhancing the effectiveness of business practices. These advantages could boost operational efficiency of Libyan organization by widening her marketing network. E-commerce as a vital component of business strategy can potentially boost the performance of Libyan organization. The adoption of electronic strategy into business transaction could enhance productivity, reduce transaction cost, and enable mass customization and convenient participation of customer (Lederer, Mirchandani, and Sims 2001). Almost all the developing countries currently participate in e-commerce either as seller or buyer. To facilitate e-commerce growth in Libya, there is need to improve e-commerce infrastructures. To achieve this, policy intervention has been recommended as a necessity to overrule (Johnson, 2010):

1. High cost of internet access which includes cost of connection service, subscription fees, and charges for websites with sufficient bandwidth.
2. Content restriction by national security under public policy which affect information services such as media and entertainment sectors.
3. Limited availability of credit cards.
4. Insecurity in network.
5. Development of transportation infrastructure to avoid slow and uncertain delivery of goods and services.
6. Inadequate professional information technology workforce.

E-commerce has been noted as a strong tool for sustainable organizational growth. Primary processes that are enhanced in e-commerce transaction network are production processes, customer-focused processes, and internal management processes (Tarafdara, Sanjiv, 2006):

1. Production processes include the procurement, processing of payments ordering and replenishment of stocks; production control processes; electronic links with suppliers among others;
2. Customer-focused processes include promotion, sales over the Internet, processing of purchase order for customers, payments and customer support.
3. Internal management processes encompasses employee services, training and recruiting, video-conferencing and internal information sharing.

Electronic transaction enhances information flow among production and sales unit to improve productivity. The internet is a vast network that allows people from different geographical location to interact inexpensively and reliably. It encompasses global collection of networks connected to share information via common sets of protocols (Zhu, Kracmer, Xu, 2002). The emergence of the internet has facilitated e-commerce transactions in Libya at reduced cost. Before the use of the internet for commercial transactions in Libya, organizations used private networks like electronic data interchange to transact businesses which are expensive to install and maintain. However, the integration of the internet into the transaction network of Libya could rapidly spread e-commerce adoption primarily because of its low costs and open standards (Alireza, 2009). Internet-based transaction could facilitate the transaction of goods and services which may have required interconnection by allowing for an instantaneous flow of vital information through efficient and effective integration of the organizational processes (Choi, Stahl, and Whinston, 1997).

These benefits are viewed as an ideal strategy to boost the economic state and market network of Libya organization. Ray et al., proposed numerous ways in which government in the developing countries could encourage the adoption of electronic-based transaction (Ray, Muhanna, & Barney, 2005). Similarly these measures can be applied among Libyan organizations.

Table 1. Libyan Internet Usage and Population Growth
(<http://www.internetworldstats.com/af/ly.htm>)

YEAR	Users	Population	% Pen.
2000	50,000	31,795,500	0.2 %
2005	1,920,000	33,033,546	5.8 %
2007	2,460,000	33,506,567	7.3 %
2008	3,500,000	33,769,669	10.4 %
2009	323,000	6,324,357	12.0 %

Libyan government can also motivate organizations and individuals to adopt e-commerce practices through:

1. E-procurement: Government agencies should trade electronically with suppliers through e-procurement information systems.
2. Customs clearance: through the computerization of customs processes and operations covering electronic submission, processing, payment, and automated systems for data entry to integrate customs tables, codes and pre-assessment.
3. Tax administration: through electronic transmission and processing of tax return information, permits, issuances of tax clearances via online, licenses and electronic registration processes of businesses and taxpayers.
4. The private sectors could be discouraged from participating in e-commerce transaction if Libyan government fails to engage in e-procurement, secure their records online or electronically remit customs fees.

4. CONCLUSION

Libya today has only around 605,000 fixed lines for a population of 6.3 million, and only 40,000 mobile users (a penetration rate of less than 1 percent) and 10000 Internet service subscribers. However Libya has developed significantly. The same issue applies to mobile technology; the Libyanna Mobile Technology Company argued that the subscriber numbers to its service exceeded one million, where dial-up subscribers according to LTT internal documentation reached 55,000 in 2006. Generally growth and development are slow, but not because of any lack of demand. Internet cafés are spreading rapidly, with more than 50 in Tripoli alone. Internet users are mainly young people and teenagers who surf the Internet mostly for leisure and entertainment rather than shopping around or hunting for bargains. Several factors could be summarised as a result which are:

1. E-commerce in Libya is still in its infancy stages of development.
2. Consumers are not yet heavily involved in using the Internet and become e-commerce customers.
3. Traditional trade infrastructure is better established than e-commerce infrastructure.
4. E-commerce is complementary to traditional trade activities.
5. E-commerce is only a threat to traders who do not offer good services to their customers.

Furthermore, the announcement of the lifting of Custom tariffs on more than 3,500 imported commodities could result in reducing the cost of products which will reduce the threat of e-commerce effects on traditional businesses. According to the Economist Intelligence Unit Limited (2005), the average tariff rate was almost 22 per cent, but this disguised an extremely complex system of tariffs, ranging from zero to 425 per cent. The latest move will undoubtedly contribute to lower prices, and help curb bureaucracy, reduce smuggling and increase trade volumes. The Internet does not only deal with money, but also with large databases, full of vital and sometimes top secret information that companies, organisations and governments have within their own environment. Also, the Internet can be easily characterised as an FDI (Foreign Direct Investment) tool. Companies apply different strategies of how to enter a foreign market, expand their operations and become multinationals. Companies do that in order to create a competitive advantage over other companies. Such firms gain competitive advantage by exploiting new resource; low labour-costs, cheap raw materials, the country's infrastructure, communication channels, legislation, etc. The revolution of e-commerce brings along some challenges, not only for the firms, but for governments as well. These challenges can influence at a microeconomic and macroeconomic environment level. E-commerce and e-business require a complete change of the business structure. Firms going digital need to consider restructuring their entire business or even creating a new one. They need to implement new management processes, changes in their business culture and follow different procedures for managing their employees. Also, they need to create a new structure for information systems, networked processing functions and most importantly, they will need to change their entire business strategy.

All E-businesses, in order to co-ordinate their online transactions and business activities as well as the potential linkage with other firms within its industry, need to build a very strong IT infrastructure. IT infrastructure has the power to connect the firm with infrastructures of other organisations while bringing down barriers and creating a new 'business global village' (Chaffey, 2002). However, digital firms have to select the most suitable Internet technology that is compatible with their business processes and data structures. There are different kinds of hardware and software tools that can be used for different business applications. Therefore, the firm must choose the right set of technologies for its IT infrastructure. Moreover, technology is constantly upgrading and introduces new systems, applications and hardware. A company has to keep up with the technology pace in order to create well functioning business processes among customers and suppliers via the Internet. This requires the reconstruction of information architectures and IT infrastructures. There are five basic problems that stand in the way of implementing these new changes (Mitchell, Hutchinson, Niculescu, Pereira, and Wang, 2004):

1. Loss of management control: The end users are becoming more independent, capable of collecting, storing and handle software. This occurs due to the lack of a single, central point where the need of management can occur.
2. Connectivity and application integration: A company needs to upgrade its IT infrastructure in order to have compatible networks and standards and eliminate connectivity problems.
3. Organisational change requirements: The old organisation structure has to be changed to be compatible with the new IT infrastructure in order to be more effective and uniform.
4. Hidden costs of enterprise computing: Some unexpected costs and expected savings that did not occur are generating problems. These costs are generated from hardware and software installations, maintenance costs, labour costs etc.
5. Scalability, reliability, and security: The increased load of data transactions and storage as well as the traffic of applications such as audio, streaming video and graphics, drive managers to develop strategies to manage those issues.

Adoption of e-commerce by firms we can classified into two main categories; internal and external factors. Internal factors are within the firm and external factors are environmental in

nature. Internal factors are IT readiness which refers to the level of IT usage within the firm. This category includes information and networking security, system interrelation, data conversion, hardware and software compatibility, adequacy of the firm's IT infrastructure and migration from legacy system. The second internal factor category refers to the firm's financial readiness. The major cost of e-commerce adoption is the cost of educating and training management and employees to use e-commerce (Graham and Cobham, 2006). Another concern of the top management is the losses of productivity due to abuse by IT staff readiness factor category refer to the IT and e-commerce literacy level inside the firm. E-commerce is a smarter approach to conduct business and the best approach is for organizations to manage their activity as an integral part of their approach to developing and sustaining customer relationship. E-commerce technology is available and affordable, and is an international uptake that presents ways for companies to demonstrate their capability through the use of IT systems for business transaction. E-commerce-base transaction uses electronic and digital information processing technology to create, transform, and redefine relationships for value creation between organizations and organizations as well as individuals. The internet plays a central role in mediating transaction processes in implementation of e-commerce among Libyan organizations. Reports show that e-commerce adoption is enhanced through policy intervention on its processes and provision of e-commerce infrastructures as well as the provision of incentives. The RBV model (Resource-Based View model is a basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable interchangeable and intangible tangible resources at the firm's disposal) revealed that e-commerce technology provides competitive advantages that are vital in enhancing imperfect market across firms. RBV further revealed that e-commerce development process involves numerous organisational routines, repertoires as well as managerial decision among business partners, employees, suppliers, and competitors.

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CONSUMER BEHAVIOR-MOBILE MARKETING RELATIONSHIP: A RESEARCH ON SUPERMARKETS

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ABSTRACT

Nowadays with the advancement of technology it is seen that consumers have one or more mobile devices. This has created an environment for the transition from traditional marketing to mobile marketing. Therefore, the concept of mobile marketing has become an important issue for companies. Consumers are using mobile devices effectively and businesses are aiming to reach to consumers with an easy way. Preferring mobile marketing is an important factor that sets out this research. The purpose of this study is to demonstrate how to create an impact on consumers of mobile marketing applications. For this purpose the data obtained by a questionnaire was analyzed with SPSS 20.0 software package and the results have been interpreted.

Keywords: *Consumer Behavior, Mobilite, Mobile Marketing*

1. INTRODUCTION

From the past to now, rapid developments have begun to be experienced in communication technologies. These developments caused mobile devices to become important in the life of consumers and enabled marketers to make easier communication with consumers. Marketers have obtained the ability to reach consumers every time and every place. This marketing carried out especially through mobile phones led the concept of mobile marketing to emerge. But, for applications of mobile marketing to be able to be successful, it will be useful to measure reactions of consumers about this issue and act according to it.

Today, consumers remain under bombardment of an intensive marketing message. A consumer exposes to marketing communication message between 200-1000 pieces a day. Under this intensive message bombardment, that consumers make purchasing decision gradually becomes much more difficult (Akbıyık, et al., 2009:3). Just as there will be some consumers, who are satisfied with marketing messages, and make consumption, considering these, there can also be some consumers, who are dissatisfied with the messages coming successfully. In view of this, instead of randomly sending messages, it will be more convenient behavior to send to the consumers, who permit for messages to be send.

In this study the effect of applications of mobile marketing in supermarket sector on the consumer behaviors will be studied. In the first section of the study, the information of mobile life and concept mobility, applications of mobile marketing, and mobile marketing in the world and Turkey is given place. In the second section, the information is given regarding consumer behaviors and effect of mobile marketing applications on consumer behaviors, and attitude and behaviors of consumer about mobile advertising applications. In the last section, a study has been carried out on the supermarkets in Konya and the findings obtained from the study are evaluated and the reactions consumers give about mobile marketing are attempted to be introduced

2. MOBILE LIFE AND THE CONCEPT MOBILITY

2.1. Mobile Life and Definition of Mobility

The ability to connect with internet and memories in mobile phones enabled people to know the ability of mobile life. Today, consumers have become mobile consumers. With beginning of internet to be used in marketing area, consumers gave slowly went away from the traditional marketing applications and, about the products they target to purchase, found the opportunity to be able to examine the views of the people, who have already used that product and to make comparison between the products (Eru,2013:3).

Today, the concept mobility have gone away from a simple subject of marketing and turned into indispensable part of the daily life. One of the largest innovations included in the human life in the recent years is of course the concept mobility. The concept mobility mobile phones have brought to our life becomes gradually more important need in every area of business life with development of communication abilities and becoming widespread of wireless communication networks (Ak,2010:3). The concept mobility can be defined as becoming wireless. Mobility includes technologies, which will enable individuals to be able to access information even if they are in mobilized way, and to make process with this information, and which form mobile solutions (www.kobifinans.com.tr, 2011).

2.2. Characteristics of Mobility

Four characteristics stand out relevant to the concept mobility. These four characteristic are: being interactive, having a mobile structure, being portable, and being minimized. Being portable also enables to be able to mobilize continuously. That the elements mobility have can be carried by human makes obligatory these devices to be light and small and minimal (Eru, 2013:5). Together with the developing technology, mobile phones reached light and easily portable dimensions Again thanks to the developing technology, instead of desktop computers, laptop computers have begun to be used. Tablet computers, which is another innovation technology brings, is more usable and light compared to laptop computers (Köroğlu, 2002: 56).

2.3. Definition and Importance of Mobile Marketing

Mobile marketing is a marketing instrument used by means of mobile phones in the promotion activities of goods, services, and ideas in such a way that it will make benefit to business and all shareholders. According to another definition, it is a marketing communication carried out to promote the goods, services, or opinions (Şanlıöz, et al., 2013:252).

Thanks to mobile marketing, only products and services toward niche markets can be produced. More importantly, customizing customers, campaigns can be made toward the desires and needs of each customer. The element, which makes mobile marketing

significant, is that the advertising messages sent reach the people demanding to receive the information we will send; that these people receive advertising messages as soon as they demand; and that a short time after consumers receive messages, answering these messages, that they are in contact with the firm (Richmond, 2008: 6).

Mobile marketing provides a perfect infrastructure for advertisements. Because the features of account, used only one user, are certain, in advertising campaigns formed specific to the person, the targets can be achieved by means of mobile advertisements. In the future, it is considered that advertisements will be a large percentage of mobile marketing and this means that mobile marketing will undertake marketing communication of the new world (Karaca et al., 2010: 78).

2.4. The Aims And Characteristics Of Mobile Marketing

The aims of mobile marketing overlap with the aims of general marketing (Sert, 2012:24).

- to from brand recognition
- to develop brand recognition
- to provide customer liability
- to strengthen and reinforce brand positioning
- to increase sales
- to acquire customer
- to attract attention of customer
- to make product launches

The main characteristic of mobile marketing is that it is a direct marketing method. Marketing efforts made by means of mobile instruments can directly and specifically reach consumer and the method of this type of marketing becomes more effective compared to mass marketing instruments. (Kıraç, 2012:23). We can put in order the other characteristics as follows (Aksu, 2007:45)

- Convenience : to be able to reach information by means of mobile device
- Reachability: to be able to reach without time and space limitations
- Security: to provide secure information flow
- Connectivity: ability to always connect
- Localization: ability to be able to reach content focused information
- Personalization: ability to be able to reach information specific to person

2.5. Mobil Marketing Instruments

It can be said that the most prevalent instrument for mobile marketing is mobile phone. The people are any longer demand newer technologies continuously with the effect of technology more rapidly than the respective rapidity of technology. In mobile marketing, due to the fact that it is a direct marketing, which is closely related to technology, the number of new instruments used in mobile marketing gradually increase every passing day. Varnalı at al. classified the instruments in mobile marketing as short message service (SMS), enriched message service (EMS), multimedia message service (MMS), mobile internet, interactive voice reply system (IVR), melody tone (Ringback Tone RBT), mobile games, mobile payments, location based services, mobile TV, mobile labeling, voluntary mobile devices, and mobile social networks (Bozkurt and Ergen, 2012:46).

2.6. Mobile Marketing Applications: Mobile Marketing in the World and Turkey

We can divide mobile marketing applications into three (Alkaya, 2012:4).

- **Mobile Information Applications:** It is a mobile marketing application, whose main service is to provide information to user, and which especially includes position based services. Especially, cinema, theater, or news applications toward the final user can be given as example
- **Mobile Trade Applications:** The transactions structured through wireless networks and expressing a financial value is called mobile trade. Banking, shopping, and travel applications is an example for mobile trade applications.
- **Mobil Recreations Applications:** They are applications consisting of mobile games and content (music video, personalization, etc.) particularly toward the final user.

All over the world, mobile marketing applications has begun to be used in an increasing speed The reason for this is that they recognize many advantages of mobile marketing compared to traditional marketing. The study of “The State of Online Retailing 2011: Marketing, Social Media and Mobile”, carried out for Shop.org and in which 68 online shop participate, can be given as an example for this, According to this study, it is seen that the stores located in US concentrate on online trade. According to the results of the study, 91% of the stores have a mobile marketing strategy or the stores work on this strategy. This figure showed an increase by 74% compared to the data of the Year 2010 (Uygun, 2011).

In Turkey, the first study carried out toward mobile applications was realized by Turkcell Company. Tuirkcell Company was followed by Vodafone and Avea companies among the other operators. Together with 3G, GSM firms present ability to utilize mobile internet access and mobile internet connected services in exchange of a certain fee. For these services, the services such as music, select and watch, file sharing, news package, etc. can be given as example. On the speeches on marketing carried out, it was attracted attention that mobile market showed a very speed growth in Turkey; and that the rate of smart phone, which is 14% in the world was 16% in Turkey. While attention was attracted that although the number of subscriber in Turkey is 66 million, there were 136 million of mobile phone, it was suggested that the applications developed in the area mobile marketing and advertising area in Turkey spread to the other counties every passing day (Eru, 2013: 95).

3. CONSUMER BEHAVIORS AND THE EFFECT OF MOBILE MARKETING APPLICATIONS ON CONSUMER BEHAVIORS

3.1. The Concepts Of Consumer And Consumer Behavior

The concept consumer is a subject providing dynamism in market and marketing deals with it carefully. In the literature, consumer is a real person purchasing marketing components for his/her personal needs and expectations or having a capacity to purchase them. The concept consumer was defined in the different forms to the present days but a common point at all of them is that consumers act due to a need they feel (Erdem, 2006: 69).

Consumer behaviors includes the processes of making decision, in which individuals thinks of that they can meet their own or other’s needs affecting physical activities such as evaluating, searching for, purchasing, using, and disposing products and services. Consumer behavior not only examines the cases actualizing during purchasing but also the cases before and after purchasing stage, experiences relevant to these stages, and a lot factors (Akkaya, 2013:72).

Consumer behaviors has a so complex structure that they can surprise advertisers. Consumers are afraid of that advertisers show everything better than they are and, therefore, they can hesitantly approach the product over advertised (Karabacak, 1993;77).

3.2. The Factors Affecting Consumer Behaviors

From which factors consumers are affected while making decision of purchasing and in what direction is an issue that is necessary to be answered. The process that consumer makes decision is not a simple activity. Although there is no a strong model that can define consumer behaviors in the real meaning, the common feature of all models developed is that they accept that consumer behaviors are affected from some factors (İslamoğlu, 2003:52). These factors are shown in the following Table 1.

Table 3: Affecting Purchasing Behavior of Consumer

Cultural Factors	Social Factors	Personal Factors	Psychological Factors
-Culture -Su Culture -Social Class	-Reference Group - Family -Role and Status	-Age -Occupation -Life Style -Economic Features -Personality	-Learning and Memory -Motivation and Involvement - Perception and Sensation -Attitudes and Belief

Resource: Philip Kotler,. It was adapted from “Marketing Management, Analysis, Planning, Implementation and Control” , published in 1997

3.3. The Attitudes And Behaviors Of Consumers Toward Mobile Advertising Applications

Mobile advertising utilize, in transmitting advertising messages, mobile instruments such as mobile phones. Mobile advertising messages are reached consumers with short messages. Therefore, the studies taking place in the literature mostly included short message advertising in their scopes.

In the literature examining the attitudes and behaviors of consumers toward mobile advertising applications, there are some studies. Some findings of these studies were summarized in the study of Usta in 2009 as follows(Usta, 2009:299):

- Four factors are effective on acceptance of mobile advertising: permission, content of message, control of service provider on the message, and distribution time of the messages
- Most of the respondents are in the tendency of not accepting the messages sent without permission.
- Attitudes of Koreans young people toward mobile advertising are more positive compared to American young people.
- The three characteristics (entertaining, reliability, and privateness) of mobile advertisements are significantly effective on the attitudes of consumers
- Consumers show important interest to KM advertisements that are for their own needs
- Attitudes of consumers toward permitted advertisements is quite positive.
- General attitude toward KM advertising is negative. There is a significant relationship between four characteristics (informing, entertainment, exacerbating, and reliability) of advertisements and attitude

4. AN APPLICATION ON SUPERMARKETS IN KONYA

4.1. Subject of the Study

Subject of the study is to determine the effect of mobile marketing applications in supermarket sector on consumers. The data obtained by the survey method in the study were analyzed by SPSS 15 program and findings were interpreted.

4.2. Aim of the Study

The main aim of this study is to examine the effect mobile marketing applications in supermarket sector form on consumer behavior during and after shopping.

4.3. Importance of the Study

The main reason emerging the study is that mobile marketing involves in the life much more every passing days for both businesses and consumers. In addition to communication resources of traditional marketing, the interest of consumers toward talks related to the brand, product, and services is increasing. At this point, it is important to reveal how much supermarket consumers are affected from mobile marketing, and how mobile marketing applications differentiate consumer behaviors.

4.4. Study Method and Collecting Data

The study has been carried out 120 people living in public housings, located in Alaaddin Keykubat Campus, Seljuk University. While the sample is selected, kolayda sample method was used. The main hypothesis examined in the study is as follows.

H₁: Mobile advertisements have a positive effect on purchasing decision of consumers. In the study, as a method of data collection, a survey study was carried out. In the process of preparing survey questions, the subjects mentioned and studies carried out in the Turkish and English literature relevant to mobile marketing and consumer behaviors were considered. In the light of studies previously carried out, data collecting instrument was formed.

In the study, a total of 23 expressions together with demographic questions. The survey consists of three sections. In the first section of survey, 5 questions were given place related to demographic characteristics and SMS use. In the second section, in order to study the attitudes of consumers toward mobile advertisements, 6 questions were asked. In the last section of the survey, in order to measure purchasing behaviors of consumers, 10 questions were asked.

In the judgments toward the second and third section of questionnaire, 5-point Likert scale was used and the participants were asked to select one of the options of "I definitely agree with it, I agree with it, I am indecisive, I do not agree with it, I definitely disagree with it. "

4.6. Findings of Study

In this section, as a result of that the answers the respondents participating in the survey give are analyzed by means of SPSS 15 program, the findings obtained were given place.

Table following on the next page

Table 4: Analysis of Gender and Age Frequency

Gender	Frequency	Percent	Age	Frequency	Percentage
Female	64	53,3	15 and less	4	3,3
Male	56	46,7	16-25	88	73,3
Total	120	100,0	26-35	8	6,7
			36-45	12	10,0
			46-55	4	3,3
			56 and more	4	3,3
			Total	120	100,0

46.7% of those participating in the study are male and 53.3% of them are females. When this balanced distribution between participants is taken into consideration, it is possible to say that the findings are valid for both genders. It is seen that 73.3 % of those participating in the study are between ages 16-25.. It is considered that the findings that turn out mostly reflects the views of young people.

Table 3: Occupational and Income Frequency Distribution

Occupation	Frequency	Percentage	Income	Frequency	Percentage
Student	68	56,7	500 and less	52	43,3
Housewife	4	3,3	501-1000	8	6,7
Not working	4	3,3	1001-1500	12	10,0
Retired	8	6,7	1501-2000	4	3,3
Public Servant	28	23,3	2001-2500	32	26,7
Worker	8	6,7	2501 and more	12	10,0
Total	120	100,0	Total	120	100,0

It is seen that 56.7% of participating people are students and 23.3% of them are public servant. When regarded to the monthly income distribution of the people participating in the people, it is seen that 43.3% of them have an income TL 500 and less; 26.7%, TL 20001 – 2500; and 10%, TL 2501 and more.

Table 4: Shopping and Advertisement receiving with SMS Frequency Distribution

Shopping Frequency	Frequency	Percentage	SMS Advertising Frequency	Frequency	Percentage
Everyday	4	3,3	A few times a day	32	26,7
Every other day	12	10,0	One time a day	16	13,3
2-3 times a week	60	50,0	A few times a week	36	30,0
One time a week	16	13,3	One time a week	28	23,3
One time a month	28	23,3	I do not receive SMS advertisement	8	6,7
Total	120	100,0	Total	120	100,0

When the frequencies of the people participating in the study to go to supermarket, 50% of them stated that they went to supermarkets 2-3 times a week. Advertising message comes through SMS to 30% of the people participating in the study for a few times a week; to 26.7%, a few time times a day; to 23.3%, one time a week; to 13.3% one time a day.

Table 5: Analysis of frequency of message reading

Advertising Messages	Frequency	Percentage
I immediately read	16	13,3
I read when I have time	40	33,3
I only read the messages attracting my interest	44	36,7
I read those of firms I permit	4	3,3
I delete without reading	16	13,3
Total	120	100,0

36.7% of the people participating in the study stated that they only read the advertising messages attracting their interest and 33.3% stated that they read them when they have time. Toward the scales used in the study, firstly, reliability analysis was carried out then descriptive statistical methods were applied for expressions.

Table 6: Attitude Scale toward Mobile Advertisings

Attitudes toward mobile advertisings	Mean	SD
If advertising message coming to my mobile phone is not awarded, I am not interested in.	3,23	1,36
I find reliable advertising message coming to my mobile phone	3,13	1,06
I think that . advertising message coming to my mobile phone is usable.	3,00	0,97
I find disturbing advertising messages coming to my mobile phone.	2,83	1,27
I want mobile discount news to come my mobile phone as message.	2,77	1,29
I want advertising message to come my mobile phone from only the brands I permit	2,23	1,36
In the scale n=120, Chi-square =75,589, p<0,01, Cronbach alpha=0,707		

In the survey study carried out, in the reliability analysis of the scale used in measuring attitudes toward mobile advertising, alpha value turned out 70.7% ($\alpha=0.707$). Since this value is above the reliability limit ($\alpha=0.70$) accepted for scales, it proved the reliability of scale.

The consumers participating in the study agree with the most the expression that “If advertising message coming to my mobile phone is not awarded, I am not interested in”. However, it is seen that the consumers disagree with the expression that “I want advertising message to come my mobile phone from only the brands I permit”

Table 75: Example of Purchasing behavior

Purchasing behavior	Ort	SS
Generally, I make shipping from supermarket sending to my mobile phone.	3,27	1,19
While shopping, I share he SMS advertising messages coming to my mobile phone with those in my circle	3,23	1,23
While shopping, I am affected from the advertising messages coming to my mobile phone.	3,17	1,19
I follow SMS advertising messages of supermarkets.	3,13	1,12
I follow discount news of supermarkets from the advertising messages coming to my mobile phone.	3,13	1,15
While shopping I continuously prefer the same supermarket.	2,93	1,10
While shopping, I follow discounts and promotions, from the messages coming to my mobile phone.	2,77	1,09
Negative interpretation about SMS advertisements affect supermarket shopping.	2,73	1,16
Promotions and discounts taking place in SMS advertising affect my decision to purchase	2,70	1,07
While shopping, price is important for me.	1,83	1,10
n=120, Chi-Square =229.503, p<0.01, Cronbach alpha=0.923		

In the survey study carried out, in the reliability analysis of the scale used in measuring the purchasing behavior of the consumers, alpha value turned out 92.3% ($\alpha=0.923$). Since this value is above the reliability limit ($\alpha=0.70$) accepted for scales, it proved the reliability of scale.

The consumers participating in the study agree with the most “Generally, I make shipping from supermarket sending to my mobile phone.”. However, it is seen that the consumers disagree with the expression that “While shopping, price is important for me.”

It was seen that the data of attitudes toward mobile advertisements (MR) scale and purchasing power (SD) scale were normally distributed as a result of Kolmogorov-Smirnov Test. In the scope of this information, in the application of correlation analysis, any negative case was not identified.

Table 8: Correlation Analysis

	MR	SD
MR	1	0,623
SD	0,623	1

When regarded to correlation analysis, between attitudes toward mobile advertisements and purchasing behaviors, a positive significant relationship, which can be deemed strong, was presented. According to this, **H₁**: “Mobile advertisements have a positive effect on purchasing decision of consumers” was accepted.

5. CONCLUSION AND SUGGESTIONS

At the present day when competition is intensive, and it is difficult for businesses setting out by making strategic mistakes to survive, business refer to many ways to form difference. Together with that technological possibilities increase much more, the satisfaction point of consumers is forced and their satisfaction degrees rise. In view of this, that products survive in the market for long time becomes difficult and, the life of product to survive in market rapidly expires, and needs becomes unmet. It becomes impossible for the products to find purchaser in market as long as they do not create differentiation compared to the competitive products and renew themselves (Sert,2012:122).

That the users of mobile phone rapidly increase enabled word of mouth marketing to begin to be used as mobile marketing. These important developments in mobile communication area led marketing specialists to concentrate on how to use communication network more effectively. Since mobile messages become more effecting about directing consumer, firms have also concentrated on this context (Erçiş and Aydın, 2014:214). The results obtained from the study carried out about mobile marketing are as follows:

According to the results of the study, the perceptions, observation, and satisfaction degree of participants shows variation according to the coming messages. If consumers receive the messages from the companies, which they consider that they are important for themselves; they feel that sending messages to others are under their control; that they perceive benefit from the message coming to them, and that they consider that they make glad them, they show positive impressions about forwarding this kind of messages to others Among the studies shown in Table 2, except for the studies carried out by Peters, C. et al. and Carroll, A. et al., it is seen that the remaining studies supported the studies that passed to the literature.

Since this study is carried out on a certain part of the students of Seljuk University, when assumed that it includes the view of universe, it was proved that mobile marketing including marketing elements and giving a new impulse to market had a positive effect on consumers. At the end of the study, it was seen that consumers took into consideration the messages coming through mobile marketing; that they read and were affected from them; that they reached to the satisfaction level; and that they shared those messages with those in circles

Today, it is impossible for a business prevailing together with technology and determining its target market, using mobility function, not to reach consumers. For

creating a difference in market and rapidly reaching target mass, it is necessary for the firms to use these technologies.

Considering disadvantages of mobile marketing, it is necessary to use this marketing element without frustrating consumer. As seen in the study, a section of 20% say that they do not read the message. It must not be forgotten that the reason for this should be investigated thoroughly and, when each consumer uses at least one mobile device, this rate is worth to taking serious. It was observed that a firm, which determined well its target portfolio, should keep away from the ways of reaching with the messages, which are unnecessary, and will create dissatisfaction. In the direction of this study, it was revealed that the perceptions of consumers changed via mobile message and that there was a relationship, which may be deemed strong, between them. Provided that the study is carried out in the different environment and with demographic data of the people, it should not be forgotten that different results can turn out.

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IMPACT OF GOVERNMENT POLICY ON INTERNATIONAL BUSINESS

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ABSTRACT

In this paper we analyzed the influence of politics on international business because the political environment influenced by a number of factors can facilitate or hinder the operation of the company, both on the domestic and the international market. Some economists have over the past two decades, under the influence of globalization and market liberalization, they would come to reduce the impact on the business of government, however, policy and political influence have become more, not less important for international business. Some of the reasons that will be presented in this paper relate to the growing number of demands of the various stakeholders operating in the international market, because globalization can significantly reduce costs in international business transactions, enabling companies to expand their activities outside the domestic market. Also, a strategic investment in new technologies and innovations, often creates regulatory challenges, which require political reactions, which can affect the rate of emergence of new technologies and their level of acceptance, sustainability and profitability of which depends largely on the success of companies operating in the international market. How to political factors affecting the economic environment, a fall in perhaps the least predictable elements of the business environment, the managers is a big task to align the skills of management and business in the international market in accordance with the regulatory requirements of the countries with which they do business, and some of these examples, shall set forth in the paper.

Keywords: *international business, politics, management, innovation*

1. INTRODUCTION

Politics and political influence could be problems for managers because of their impact on the context in which it is executed strategy firm. During the past two decades, globalization, combined with the policy were to lead to a reduction of government influence on business, due to phenomena such as privatization and liberalization, however, policy and political influence have become more, not less, important to the business. There are at least three reasons for this. First, because the impact of business on society and nature grows, before managers placed increasing demands from different parties (Donaldson & Preston, 1995; Mitchell & Agle, 1997). Privacy is a place where the requirements are different stakeholders finally reconciled. Second, innovation and strategic reliance on new technologies have become a central theme in many industries (Tushman & Anderson, 1997). New technologies often create regulatory challenges that require political responses that may affect the viability and profitability of strategic innovation. Government policy also affects the ability of business. The ability to exert political influence on the technological dynamic sectors therefore becomes important. Third, globalization can significantly reduce the transaction costs of international business, which enables companies to extend their activities beyond the domestic market (Ohmae, 1999). Managers are also faced with more regulatory requirements, and they are required skillful political management. Globalization was one of the major changes that the world witnessed recently, and similar to this kind of major make over, there are expected to be more isolated yet more effective changes made. Sussman (1997) observed that in the last 10-15 years, trade has been major changes. These changes are ones that directly affect the lives of the working class,

and have raised a great deal of concern for millions of people. This is because of the fact that democratic principles might well be overwhelmed by capitalist endeavors. However, from a governmental perspective it appears that these strategies are ones that would not interfere with democracy. It seems that the government believes that the alliances would aid the effect of globalization, thereby creating better trade in North Western hemisphere. As international business or trade involves flows across boundaries of sovereign states, the conduct of international transactions is different from that of domestic trade.

2. POLITICAL FACTORS AFFECTING INTERNATIONAL BUSINESS

Government and politics play a major role in international business. The political environment in international business consists of a series of political factors and government activities that may or may facilitate or hinder the legal capacity to carry out business activities in the foreign market. Often there is a high degree of uncertainty when performing operations in a foreign country, and this risk is often called the political risk and sovereign risk. The political environment may affect the business of the organization in many ways. These are risk factors that can lead to large losses. You need to realize that political factors have the power to change the results of operations and business also can influence government policy at the local and / or at the federal level. Companies should be prepared to deal with local and international policy outcomes. There are many external factors that may affect the business. The goal of managers is always to make decisions in order to progress the company. Some common factors are political, economic, social and technological (known as PEST factors). The companies also have to take in the view if the environmental, legal, ethical and demographic factors. Political factors' affecting the business is often given great importance. Several aspects of government policy can affect the business. All companies have to respect the law. Changes in government policy make political factors. Changes can be economic, legal or social. Or there may be a mixture of these factors. Increase or reduction of taxes can be an example of political factors that affect the business. The government can increase taxes for some companies, and to reduce them for others. This decision will have a direct impact on the business. Government intervention such as changes in interest rates may also have an impact on patterns of demand companies. These factors are linked in many ways.

Some examples are:

1. Political decisions affecting the economic environment,
2. Political decisions affecting the social and cultural environment in the country,
3. Politicians can influence the rate of emergence of new technologies,
4. Politicians may affect the acceptance of new technologies,
5. Political environment is perhaps among the least predictable elements in the business environment.

How political systems in different countries vary, political influence is different. in countries where democratically elected by an open system of government. In totalitarian systems, the power of government derives from the selected group. Corruption is an obstacle to economic development in many countries. Some companies survive and grow by offering bribes to government officials. The success and growth of these companies are not based on the value offered to consumers. Political factors affecting the business are:

1. Bureaucracy,
2. Level of corruption,
3. Freedom of the press,
4. Tariff system,
5. Control of trade,
6. The right to education,

7. Employment law,
8. Law on discrimination,
9. Data protection law,
10. Law on Environmental Protection,
11. Law on health and safety at work,
12. Law governing competition,
13. Government stability and related changes,
14. Government involvement in trade unions and agreements,
15. Restrictions on imports in terms of quality and quantity of products,
16. Intellectual property rights (copyrights, patents)
17. Consumer protection and e-commerce, etc.

There are four main effects of these political factors on the business, which are:

1. Impact on the economy,
2. Change in the regulation,
3. Political stability,
4. Mitigate risks.

3. INFLUENCE OF POLITICAL SITUATION ON ECONOMIC ENVIRONMENTS

The political situation in the country affects its economic profile. Economic environment affects business performance. This affects factors such as taxes and government spending, which ultimately affect the economy. The higher the level of government spending often stimulates the economy. Foreign countries often have different economic systems of the domestic market and the adjustment often needs to be that these differences into account. For example, the country can work in a market economy in which individuals have the largest part of the property and do most companies. The market economy is usually the best economic environment for foreign businesses to protect private property and contractual rights. The next big factor is trade agreements. Countries often enter into trade agreements to facilitate trade between them. If your country has entered into a trade agreement with other countries, business in that country tend to be easier and less risky, because if the trade agreement to give some predictability and protection. One big advantage, for example, wills your products be subjected to a small number of trade barriers that serve as obstacles to the export of their products in the country. How are companies affected by government policy authorities create policies and frameworks in which companies are able to compete against each other. From time to time the government will amend the rules and frameworks forcing companies to change the way you operate. Business is so severely affected by government policy. Tax policy affects the cost of doing business. For example, an increase in taxes of corporations (business income) has the same effect as an increase in costs. Companies can pass some of these taxes on to consumers in higher prices, but will also affect the final result. Other business taxes are taxes for the protection of the environment (such as a taxi for landfill) and VAT (value added tax). VAT is actually transferred the line to the end consumer, but the administration of the VAT system is a cost for business. The second area of economic policy is related to interest rates. In this country, the level of interest rates determined by government appointed group - Monetary Committee which meets every month. The increase in interest rates increases the cost of business borrowing money and also causing consumers to reduce consumption (which leads to a drop in business sales). Government policies consumption also affects the business. For example, if the government spends more on schools, it will increase revenue by companies that supply schools in the books, equipment, etc. The government also provides subsidies for some business activities - such as subsidies for hiring the long-term unemployed.

Companies should monitor their political environment. The change in the political factors that may influence the business strategy for the following reasons:

1. The stability of the political system can influence the attractiveness of a particular local market
2. The governments see business organizations as a critical tool for social reform
3. Governments shall issue regulations, which affect the relationship between the company and its customers, suppliers and other companies
4. The Government is responsible for protecting the public interest
5. Government action affecting the economic environment
6. The Government is the major consumer of goods and services.

4. CONSLUSION

Policy and political influence plays important role in the world of modern business. Given the empirical emphasis on domestic lobbying and availability of sophisticated theoretical tools in political science and economics to study the interaction between domestic regulators and interest groups, it is reasonable that most of the existing work in the field of governance focuses on the domestic arena. However, it is undeniable that globalization expands the game field for a competitive job, offers new opportunities in foreign markets and new challenges at home. Also there is significant evidence that the political arena expands, as many political and regulatory issues transcend national boundaries and require attention at a global level (Cerni, 1995 Kobrin, 1997). Firms also engage all political processes in the international as well as domestic market. As a growing stake in international political processes, corporate political activity that goes beyond national boundaries is likely to intensify economic development. Three fundamental factors have affected the process of economic globalization. First factor is improvements in technology or transportation and communication have reduced the costs of transporting goods, services and factors of production and of communicating economically useful knowledge and technology. The tastes of individuals and societies have generally, but not universally, favoured taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration is second factor. Public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration, and that is third factor that have a huge affect on economic globalization.

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CORPORATE CULTURE AS A PREREQUISITE IN BUILDING A RESILIENT ORGANIZATION

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ABSTRACT

In times of crisis, when the business environment is turbulent and there is an absence of genuine market anticipation, one of the main qualities a company can possess is resilience. The notion implies that the company has the ability to adapt, overcome and make a turnaround from any unexpected events or changes, thus ensuring the continuation of a high level of production or service providing. As resilience is still a relatively new concept and the topic has been active since the latest economic crisis, literature still does not provide a unique definition and what is needed to build a resilient organization. This paper attempts to explain the qualities of a resilient organization, as well as the connection between corporate culture and resilience, as culture within a company is seen as a key factor in building a resilient organization.

Keywords: *resilience; corporate culture, organizational management, leadership, crisis*

1. INTRODUCTION

In today's turbulent and uncertain times of doing business economic theoreticians tend to emphasize specific topics of value to an organization such as innovation, adaptiveness, sustainability, versatility or diversification. Although every cited subject may represent a key asset to a company in obtaining the crucial advantage over the competition, there is one issue that has just started to occupy economic practitioners' attention and that is – resilience.

Resilience has become a contemporary buzzword in recent years. The term is recurrently found in many different discourses, ranging from the world of sports (resilient teams overcoming late-game deficits) to the worldwide news (the wars in Syria and Iraq), from reports on natural disasters (Aquila earthquake and hurricanes of the USA) to policy papers on the protection of infrastructure and healthcare (California blackout and Obamacare repelling). It is turning out that everybody and everything ought to be and should be resilient (Comfort, Boin & Demchak, 2010).

Resilience is widely viewed as a potential solution to the challenges posed by crises and disasters. The premise of resilience is an organization or society that absorbs shocks and 'bounces back' after a disturbance. While the idea of resilience is increasingly popular, empirical research on resilient organizations is actually quite rare.

The idea of resilience builds on a firm ground in the fields of engineering, biology and psychiatry. In all these fields the approach to resilience conducts the capacity of a material, person and biotope to survive sudden shocks. When it comes to economy, and more broadly – social sciences, one of the first people to provide the concept of resilience was Aaron Wildavsky

(1991). He introduced the concept as an intellectual and instrumental counterweight to the obsession with risk prevention. Even though Wildavsky's work had earned him much praise it did not inspire continuous empirical research in that newly created field whilst generating rather modest theoretical discussions in the years following the publication of his work.

While it is important to identify and foster factors that promote personal resilience (Everly, McCormack & Strouse, 2012), an organizational development perspective would dictate the search for, and promotion of, community and organizational resilience (Everly et. al., 2011). The organizational culture of resilience is one in which there is an atmosphere or organizational climate wherein growth is promoted, support is abundant and crisis is viewed as an opportunity to overcome and grow. Simply stated, the culture of resilience is an environment where resistance and resilience are not only fostered but are the core fabric of the culture itself (Everly, Smith & Lobo, 2013).

Provided with previous works and in combination with forwarding literature review this research paper will attempt to explain the qualities of a resilient organization. Moreover, the paper will emphasize the connection between corporate culture and resilience, as culture within a company and a learning organization are seen as key factors in building a resilient organization. Lastly, we will explore the linkage between leadership and resilience building as it is believed it can be a crucial factor in designing successful business climate through great leadership.

2. LITERATURE REVIEW

The concept of resilience is becoming popular in the business continuity management debate and academic analysis. This interest is associated with the concern to develop a resilient organization that is able to absorb, adapt and recover quickly from unexpected events or changes to ensure continuous services or critical business function and operations. Literature analysis from related articles found that resilience is still a relatively new concept and there are some unanswered questions on the definition of organization's resilience, the capacity that make up resilience and the mechanisms to enable the organization to remain existent and functioning. Increasingly chaotic business environments of today demand organizations to be more resilient. While the concept of resilience is widely discussed in disaster (Wildavsky, 1991) and crisis management literatures (Manyena, 2006), the literature on organizational resilience is developing disjointedly in organizational studies.

Vogus and Sutcliffe (2007) have outlined the contours of the theory of organizational resilience as well as a future research agenda. In their research they pinpoint how the core notion of resilience has become increasingly important to all organizations and present conclusions how the organizational theory has not yet recognized its' value. In addition, they have provided us with a definition of organizational resilience by combining varying definitions by previous authors. Complementary to their work, Boin, Comfort and Demchak (2010) write about the rise and advent of resilience, its' concept and meanings as well as building and designing resilience with examples from the U.S.A. government history.

Building organizational resilience had also been the focus of work by Beer, Eisenstat and Foote (2009), McManus, Seville, Vargo and Brunson (2008) and Hollnagel (2010). Each in their own right discuss the steps needed to lay foundations to organizational resilience while pointing out the difficulties in the process such as the inability to translate the concept of resilience into tangible working construct for organizations. Hollnagel, most notably, offers a way to measure resilience by introducing the R.A.G. – Resilience Analysis Grid.

One specific topic of interest for researchers on which there is a mutual understanding that it represents a key component in resilience building is – leadership. Everly, Smith and Lobo (2013) write about resilient leadership and the uncertainty from which it thrives while defining various types of leadership techniques such as the John Hopkins model of leadership, transformational leadership and in extremis leadership. Moreover, Hewison and Holden (2016) dissect the leadership phenomenon and discuss ways in which it impacts the culture of an organization. Finally, Patterson, Goens and Reed (2009) go after exploring resilient leadership in turbulent times and aim to help leaders thrive in the face of adversity while developing an instrument called L.R.P. – Leader Resilience Profile. The L.R.P. is intended to measure a leader's resilience in twelve given categories.

Lastly, we will put focus on the element of learning and its' processes within an organization for the previous research (Serrat, 2010; Lengnick, Lengnick & Beck, 2011; Lundholm & Plummer, 2010) suggests that there is a strong connection between learning and resilience where the former may lead to latter.

3. BUILDING A RESILIENT CORPORATE CULTURE

Corporate culture has been defined as the “normative glue” that holds an organization together (Tichy, 1982). Forehand and von Gilmer (1964) suggest that culture is the set of characteristics that describe an organization and distinguish it from others. Schein (1990), in a more comprehensive fashion, defines culture as values and behaviours that are believed to lead to success and are thus taught to new members. Morgan (1997) describes culture as “an active living phenomenon through which people jointly create and recreate the worlds which they inhabit.”

The effect of organizational culture and creating its' resilience depends highly in its' strength. Corporate culture strength refers to how widely and deeply employees hold the company's dominant values and assumptions. In a strong organizational culture, most employees across all subunits hold the dominant values. These values are also institutionalized through well-established artefacts, thereby making it difficult for those values to change. Furthermore, strong cultures tend to be long-lasting; some can be traced back to company founder's values and assumptions. This long-lasting attribute significantly partakes in making a culture resilient in the long run. In contrast, companies have weak culture when the dominant values are short-lived and held mainly by a few people at the top of the organization.

A strong corporate culture increases a company's success and leads to foundations of resilience. That goal can be achieved by serving three important functions (Ojo, 2009):

- a) Control System - Organizational culture is a deeply embedded form of social control that influences employee decision and behaviour. Culture itself is pervasive and operates unconsciously;
- b) Social glue - Organizational culture is the ‘social glue’ that bonds people together and makes them feel as a part of the organization's experience. Employees are motivated to internalize the organization's dominant culture because this helps fulfil their need for social identity. This social glue is increasingly important as a way to attract new staff and retain top performers. Employee retention proves crucial in keeping the best human resources available stick around your network;

- c) Sense making - Organizational culture assists the sense - making process. It helps employees understand what goes on and why things occur within the company. Corporate culture also makes it easier for them to understand what is expected of them and to interact with other employees who know the culture and believe in it.

3.1. What defines a resilient organization?

Resilient organizations contribute significantly to resilient communities. However, the task of building more resilient organizations is hampered by an incapability to translate the approach to resilience into tangible working build ups for organizations. In addition, resilience is often considered to be a crisis or emergency management issue. The link between creating resilient day-to-day operations and having a resilient crisis response and recovery is typically not well understood by organizations. Resilience for organizations is found to have three principal attributes- situation awareness, management of keystone vulnerabilities and adaptive capacity (McManus, Seville, Vargo & Brunson, 2009).

The main question is what do organisations need to be resilient? Resilience engineering emphasizes that resilience, and therefore also safety, is something an organisation does, rather than something an organisation has. Resilience engineering thus emphasizes function over structure and ability over capacity. In order to be resilient, an organisation must be able to do certain things, which can be expressed practically by four basic abilities (Hollnagel, 2010):

- a) The Ability to Respond - A resilient organisation must be able to respond to regular and irregular variability, disturbances and opportunities. A resilient organisation must know what to do and when to do it. This is the ability to address the actual. No system, organisation or organism can exist unless it is able to respond to what happens – whether that is a threat or an opportunity. Responses must furthermore be both timely and effective so that they can bring about the desired outcomes or changes before it is too late. In order to respond, the organisation must be able to detect that something has happened and to recognise it and rate it as being so important that a response is necessary. Additionally, it must know how and when to respond and finally have the resources (tangible or intangible) necessary to implement the response.
- b) The Ability to Monitor - A resilient organisation must be able to monitor that which happens and recognise if something changes so much that it may affect the organisation's ability to carry out current or intended operations. A resilient organisation must know what to focus on – at least for the duration of the current activity or operation. This is the ability to address the critical. In order to survive in the long run, an organisation must be able to flexibly monitor both its' own performance and developments in the environment. Moreover, it ought to address potential near-term threats and opportunities before they become real. Monitoring must be based on valid leading indicators, for e.g., reliable precursors for events that are about to happen (monitoring cannot be based on lagging indicators, since these by definition are known only after the fact). Their effectiveness depends on how easy it is to interpret them, which in turn requires a good understanding of how the organisation functions. In the absence of those 'leading' indicators, they are often defined by association or spurious correlations.

- c) **The Ability to Anticipate** - A resilient organisation must be able to anticipate developments that lie further into the future, beyond the range of current operations. It can be said that an organization should be able to “predict” future outcomes. It must be able to consider the possible future events, conditions or state changes that may affect the organisation’s ability to function – either positively or negatively – such as technological innovation, changes in customer needs, new legislation etc. This is the ability to address the potential. Dealing with the potential goes beyond conventional risk assessment. It is not just a question of what could go wrong in an organisation (hazards, wrong decisions, technological failures etc.) or in the immediate environment (raw materials, energy, suppliers, communication etc.). Dealing with the potential must also consider the organisation’s environment in a wider sense such as changes to demands and resources or changes affecting constraints and opportunities. In order to envisage or imagine these, it is necessary to have an articulated understanding (or model) of the organisation and of the environment in which it must function and survive. To deal with the potential it is necessary to acknowledge that the future is uncertain and be willing to bet on new ways of thinking.
- d) **The Ability to Learn** - A resilient organisation must finally be able to learn from its’ own experience. It is necessary to understand what has happened and be able to learn the right lessons from the right experience. This is the ability to address the factual. Future performance can only be improved if there is a change in behaviour as a result of experience. In order to learn, it is necessary that there are frequent opportunities to learn, that events have some degree of similarity and that it is possible to confirm that a lesson has been learned. That is why myriad of companies find it difficult and complex to learn from rare events. The learning effect implies that behaviours change so that some outcomes become more or less likely to happen. If no change in behaviour is recorded, then probably nothing has been learned. Consequently, if the changes go in the wrong direction, then the wrong lessons have been learned. In learning from experience it is important to separate what is easy to learn from what is meaningful to learn. Compiling extensive accident statistics or hoarding data bases is not the same as learning and may lead to “information overload” (Speier et al. 1999).

3.2. Learning organization as a step in building a resilient corporate culture

Learning is the key to success and some would even say survival in nowadays environment. For organizations longing to maintain relevance and thrive, learning better and faster is of vital importance. A plethora of organizations exercise quick and easy fixes often driven by technology. Most of them are futile attempts to forge organizational change. Even still, organizational learning is neither possible nor sustainable without understanding what drives it (Serrat, 2010). With tougher competition, technology advances and shifting customer preferences, it’s more crucial than ever that companies become learning organizations. In a learning organization, employees continually create, acquire and transfer knowledge thus aiding their company in adapting to the unpredictable faster than rivals can (Garvin, Edmondson & Gino, 2008).

The culture of the organization should be developed to support continuous improvement, improve employees' style of performing their job and thus develop quality awareness. To operate successfully across cultures, it is important to be able to recognize cultural differences and be adaptable (Deter, Schroeder & Mauriel, 2000). Organisational culture finds expression through the thoughts, intentions, actions and interpretations of members of the organization (Hallett, 2003). Academic interest in corporate culture is evidenced by the level of attention it has received over the last few decades. The relationship between corporate culture and performance has been the subject of abundant research in several fields, including strategic management, organisational behaviour and industrial organizations.

Organizational research over the past two decades has revealed three broad factors that are essential for organizational learning and adaptability- a supportive learning environment, concrete learning processes and practices, and leadership behaviour that provides reinforcement. They are referred to as the building blocks of the learning organization. Each block and its' discrete sub-components, though vital to the whole, are independent and can be measured separately. This degree of granular analysis has not been previously available. As it can be observed, organizations do not perform consistently across the three blocks, nor across the various sub-categories and sub-components. That fact suggests that different mechanisms are at work in each building block area and that improving performance in each is likely to require distinct supporting activities. Companies, and units within them, will need to address their particular strengths and weaknesses to equip themselves for long term learning. Organizations can develop profiles of their distinctive approaches to learning and then compare themselves with a benchmark group of respondents. To reveal the value of all these comparisons, an in depth analysis of each of the building blocks of a learning organization will be described as follows (Garvin, Edmondson & Gino, 2008):

Supportive learning environment - An environment that supports learning has four distinguishing characteristics: (a) Psychological safety: To learn, employees cannot fear being belittled or marginalized when they disagree with peers or authority figures, ask naive questions, own up to mistakes or present a minority viewpoint. Instead, they must be comfortable expressing their thoughts about the work at hand; (b) Appreciation of differences: Learning occurs when people become aware of opposing ideas. Recognizing the value of competing functional outlooks and alternative worldviews increases energy and motivation, sparks fresh thinking and prevents lethargy and drift; (c) Openness to new ideas: Learning is not simply about correcting mistakes and solving problems. It is also about crafting novel approaches. Employees should be encouraged to take risks and explore the untested and unknown territories; and (d) Time for reflection: All too many managers are judged by the sheer number of hours they work and the tasks they accomplish. When people are too busy or overstressed by deadlines and scheduling pressures, however, their ability to think analytically and creatively is compromised. They become less able to diagnose problems and learn from their experiences. Supportive learning environments allow time for a pause in the action and encourage thoughtful review of the organization's processes.

Concrete learning processes and practices - A learning organization is not cultivated effortlessly. It arises from a series of concrete steps and widely distributed activities, not unlike the workings of business processes such as logistics, billing, order fulfilment and product development. Learning processes involve the generation, collection, interpretation, and dissemination of information. They include experimentation to develop and test new products and services; intelligence gathering to keep track of competitive, customer, and technological trends; disciplined analysis and interpretation to identify and solve problems; and education and training to develop both new and established employees.

For maximum impact, knowledge must be shared in systematic and clearly defined ways. Sharing can take place among individuals, groups or whole organizations. Knowledge can move laterally or vertically within a firm. The knowledge-sharing process can, for instance, be internally focused, with an eye toward taking corrective action. Right after a project is completed, the process might call for post-audits or reviews that are then shared with others engaged in similar tasks. Alternatively, knowledge sharing can be externally oriented—for instance, it might include regularly scheduled forums with customers or subject-matter experts to gain their perspectives on the company’s activities or challenges. Together, these concrete processes ensure that essential information moves quickly and efficiently into the hands and heads of those who need it. Perhaps the best known example of this approach is the U.S.A. Army’s After Action Review (A.A.R.) process, now widely used by many companies, which involves a systematic debriefing after every mission, project or critical activity. This process is framed by four simple questions: What did we set out to do? What actually happened? Why did it happen? What do we do next time? In the army, lessons move quickly up and down the chain of command, and laterally through sanctioned websites.

Leadership that reinforces learning - Organizational learning is strongly influenced by the behaviour of leaders. When leaders actively question and listen to employees—and thereby prompt dialogue and debate—people in the institution feel encouraged to learn. If leaders signal the importance of spending time on problem identification, knowledge transfer and reflective post-audits, these activities are likely to flourish. When people in power demonstrate through their own behaviour a willingness to entertain alternative points of view, employees feel emboldened to offer new ideas and options.

One of the prime examples of learning through leadership is Harvey Golub, former chief executive of American Express, who was renowned for his ability to teach employees and managers. He pushed hard for active reasoning and forced managers to think creatively and in unexpected ways. A subordinate observed that he often “came at things from a different angle” to ensure that conventional approaches were not accepted without first being scrutinized. Golub has emphasized thinking about issues the right way rather than people having the right answer. His questions were not designed to yield particular answers, but rather to generate truly open-minded discussion.

The three building blocks of organizational learning reinforce one another and, to some degree, overlap. Just as leadership behaviours help create and sustain supportive learning environments, such environments make it easier for managers and employees to execute concrete learning processes and practices smoothly and efficiently. Continuing the virtuous circle, concrete processes provide opportunities for leaders to behave in ways that foster learning and to cultivate that behaviour in others.

4. THE ROLE OF LEADERSHIP IN DEVELOPING A RESILIENT ORGANIZATION IN A TURBULENT ENVIRONMENT

Leadership is often regarded as the single most critical factor in the success or failure of institutions (Bass & Bass, 2009). In order to better understand the role of leadership, when it comes to defining corporate culture and its necessity in building a resilient organization, Hermalin (2012) notes that leaders can be viewed as symbols and shapers of preferences. As symbols, leaders are the living representations of groups and they can receive honors and dishonors for the group, or leaders can also symbolize the ideas and beliefs of groups. The second view gives a perspective on leaders as shapers of preferences among groups, explaining how “a person with a strong personality - a charismatic leader – will influence the preferences of others.”

Luthans and Avolio (2003) explain that developing the capacity for resilience is an essential component of authentic leadership development. Bell (2002) identifies the five principles of organizational resilience and the first two are leadership and culture. In his view, resilience begins when leaders set the priorities, allocating the resources and making the necessary commitments needed to establish organizational resilience throughout the enterprise. Also, he notes that a resilient culture is built on principles of organizational empowerment, purpose, trust and accountability, which many authors quote as qualities a leader needs to possess in order to functionally run an organization. Having this in mind, it is plausible to conclude that leaders are the key instrument in defining a resilient corporate culture.

In the recent years, after facing the financial and economic crisis in 2008, the world is becoming turbulent faster than organizations are becoming resilient. Large companies cannot cope with the fast changes in the economy and therefore it is a must to create an organization which will be able to withstand the ever-changing business conditions. Nowadays, leaders of the modern world look on resilience as instruments to manage in an imbalanced world, minding the fact that the future is highly unpredictable (Heifetz, Grashow & Linsky, 2009). Allison (2012) sees resilient leaders as managers who are in charge of keeping the organization on a steady focus in the face of external disturbance and stress. According to Evans (2010) resilient leaders understand that the organization needs more than moving onto a target based only on forecasts. Also, resilient leaders must take action in preserving the elements of the organization so it can be able to renew and reorganize itself following change, thus increasing the resilience of the organization (O'Malley, 2010).

If we look at the pre and post crises time, we can see that many pre crisis leaders do not possess the necessary skills needed to build resilient organizations. Flexibility is one of the main traits a resilient leader must have, as well as the capabilities to adapt organizational structures to the changes in their business fields. Authors note that the primary task for leaders is communicating that change not occasional but constant (Comfort, Boin & Demchak, 2010). Fiksel (2006) suggests four main characteristics which can be used on different personal levels to increase the resiliency of a leader:

- a) Diversity-existence of multiple forms and behaviors;
- b) Efficiency-performance with modest resource consumption;
- c) Adaptability-flexibility to change in response to new pressures;
- d) Cohesion-creating or using existing unifying forces or linkages.

Kotter (2007) states that the ability to guide change is the ultimate test for a leader. In order to thrive amidst the unknown, resilient leaders must embrace innovative ways of interacting consistent with changes in their respective business fields. Even though turbulent times usually announce that companies will fail, examples have shown that many companies emerge and flourish during a big crisis, primarily because their leaders see this as a chance to disrupt the current standings caused by stability and easy perseverance of the market. Authors (Cangemi, Lazarus, McQuade, Fitzgerald, Conner, Miller & Murphree, 2011) explain how savvy leaders “survive and excel” and emerge stronger from the crisis while weaker competitors fail. Also, they list successful leadership practices in difficult and turbulent times:

- a) Leaders communicate with employees openly and honestly and explain the dilemmas facing the organization;
- b) They form teams and create opportunities for employees to have input into solutions to problems and act upon those that are reasonable;

- c) They get everyone involved and encourage each employee to become part of the solution;
- d) They send employees and managers as small teams into the market place to visit their customers in order to return with ideas that can help resolve problems as well as bring the voice of the customer back to the organization;
- e) They assess their organization's strengths and capabilities;
- f) They search out new business opportunities;
- g) They stay positive during the period of bad times and permeate the workplace with optimism and an encouraging and appreciative attitude toward employees;
- h) Leaders often utilize an appropriate outside consultant to provide an objective perspective and to encourage and work with both management and employees through the economic morass;
- i) Leaders walk around and mingle with employees, enabling them to see their leaders are interested in them and their ideas;
- j) Leaders provide continuous feedback to employees so they will know of the progress being made;
- k) They find new ways to create value for their customers.

Looking at the practices, we can easily see that these actions will empower the leaders to help in creating a resilient organization able to coop with difficult market storms.

5. CONCLUSION

More than three decades ago Drucker (1985) noted that we are living in a new and unprecedented world, he saw marketing playing a key role in a developing economy. Nowadays we can see that this role has been taken by a flexible, innovative, adaptive organization. In one word, a resilient organization which can endure turbulent times. This can be achieved by designing a company culture where everyone, from the leaders to employees, view change as benefit for the future and that the long times of stability have passed. Leaders must be the ones to promote changes and in this way secure the future for the company. Promoting the idea of a learning organization, in terms of improving the employees' style of performing their job and thus develop quality awareness, will ensure an adequate change for organizational structures needed to survive any new crises that will eventually come. In summation, although turbulent times are often the immediate concern of the business world - and the nation - all is not lost. Darwinism proved that the fittest survive, in today's case, resilient and learning organizations are the fittest in the business world.

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GLOBALIZATION SECURITY CHALLENGES

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ABSTRACT

This work examines the contemporary challenges, risks and threats the 21st century society faces in the process of globalization. Modern globalization has caused major shifts in geopolitics, geostrategic and international relations, to the point that many authors suggest the inability of the society to provide an adequate response to them. Security is a key foundation for the preservation of human society and all its values. Contemporary threats and threatening phenomena accompanying social development have imposed a change in the theoretical understanding of the phenomenon of security. New challenges, risks and threats require new concepts of security. The factors influencing threats to security following the post bipolar period have extended not only in size, but also by type. These factors have affected the social, political, cultural, ecological and economic sphere of society and created the world different from the one in the last decades of the twentieth century. The methods used during the preparation of this work were the method of content analysis, comparative analysis and reference sources. The purpose of this work is to show that the contemporary threats and threatening phenomena of globalization have widely affected the individual and international security. This work also offers an overview of the possible ways of achieving, maintaining and improving the security of society. This work is aimed at the general public, especially at theoretical research and pointing out the phenomenon of security in the context of globalization.

Keywords: *Globalization, security, challenges, risks, threats*

1. INTRODUCTION

Globalization as a social process, in its broadest sense, indicate a more intense interconnectedness and interdependence of countries, economies and societies through advanced information and communication technologies, markets and capital, under the auspices and control of the most powerful countries and supranational institutions.¹ Anthony Giddens believes that globalization is transforming every part of society, politics and economy². So, we live in a world of great changes, changes that affect almost everything we do. They are not linked to any particular place on the planet, but affects absolutely all.

The process of globalization required the need of its research and complete understanding. The issue of globalization, its origin, its definition as a notion, its causes and consequences, has divided numerous theorists, philosophers, politicians and economists. Despite the fact that there is a very large number of monographs, scientific and professional papers, literature on the topic of globalization, there are still efforts to penetrate its essence and offer a coherent theoretical determination.

¹ Stojanović S., *Globalizacija i bezbednosne perspektive sveta*, Beograd, 2009, p: 9

² Anthony Giddens, citat preuzet iz: Sol Rastol Saul, *Propast globalizma i preoblikovanje sveta*, Arhipelag, Beograd, 2011, p: 27

Research of globalization process (D. Held, McGrath, A. Giddens) reveal a few essential features of globalization: economic, social, political, cultural, environmental, military and geo-strategic, which are interrelated in a complex manner. This indicates the need for a comprehensive insight into the reality that is changing rapidly, and unambiguous interpretations that have only one dimension of this problem, seem to be inadequate and inappropriate.

In the last thirty years, the globalization process has been going hand in hand with modernization, transition, privatization, abolition of national borders for the sake of common prosperity and values, redistribution of the world power. If we look around us, we see clear examples of the globalization success. On the other hand, society is getting hierarchized, while the transformation of the world system, in terms of polarization and deep divisions, is going on. The modern world abounds with the Third World countries that are in a debt crisis, and societies suffer from the new nationalism, which is in the spirit of the nineteenth century. There appear modern challenges, risks and threats such as inequality between the rich and the poor, environmental disasters, civil wars, ethnic and religious conflicts, organized crime, terrorism, emergence of new countries and the decline of the old ones.

2. PROBLEMS OF GLOBALIZATION

Globalization seems to appeared suddenly in the seventies of XXth century, with a trend of an inclusive society movement towards the woven and positive development. The term "globalization" appeared for the first time in 1961 in the dictionary of English by Dirk Messner, indicating the existence of a mission of reshaping economic, social and political spheres of the society. Today, there is no man who does not have a vision of this process.

Globalization can be described from different viewpoints and it would be unfair to insist on one perspective over another. As David Held points out, all the views of theorists of globalization can be divided into three groups, the claims of hyperglobalists, skeptics and transformationalists.³ Hyperglobalists argue that we live in an increasingly global world of economic and political changes where there is no place for national states and national identities and cultures. This is the world where economic forces and corporations dictate neoliberal new world order. Skeptics strongly resist this view. They point out that the national states have not disappeared but become the creators of the globalization due to the creation and fragmentation of new states, they acquire a central role in the regulation of active improvement of international economic activity. In addition, they particularly point out that the world economy is evolving towards creating three major financial and trading blocs: the European, Asia-Pacific and the US. The management of economic globalization and transnational institutions, proves to be a primarily Western project which goal is to maintain the supremacy of the West. The decisive feature of the international order, as before, is not interdependence, but dependence.⁴ Transformationalists neither exaggerate nor dispute the importance of globalization and recognize that there are the most powerful countries of the West behind that shape political, social and economic conditions.

³ D. Held, A. McGrew, D. Goldblatt, J. Perraton, *Politics at the Edge*, The PSA Yearbook, 1999, p:14

⁴ M. Pečujlić, *Globalizacija – dva lika sveta*, <http://www.bos.rs/materijali/aspekti.pdf> (06,04,2017 god.)

They point out to the issue of power as a result of all inequalities that capitalism has generated since its origin, advocating the need for a new reorganization which will model the approach to globalization instead of being subservient and accept whatever masters are seeking.

Globalization is an ongoing process and no science can accurately predict in which direction the world will evolve and how far it will arrive in this development. What is certain while studying the consequences of this process is that negative dimensions of globalization prevail over the positive ones. As Pečulić indicates : "the form of globalization is ultimately contradictory, and each of its dimensions, such as old God Janus , contain two completely different characters, that have appeared in all areas of society".⁵ For the purpose of this paper, the greater attention will be focused precisely on the negative aspects of the consequences of globalization and security challenges, risks and threats.

2.1. Economic challenges

End of the Cold War and changes in the international relations has led to a boom in the global economy, the formation of free markets, privatization and liberalization of capital as well as general greater significance of economic factors . The neoliberal concept characteristic for the period of the nineties of XX century, showed that society was going towards an era where foreign policy and national security were increasingly turning to business interests and ensuring of economic growth. The superiority of the neoliberal model has proved effective in practice, especially in the case of China, India and Russia.

Should their success be attributed to globalism or something else? The World is becoming more interrelated today. In addition to this, Filip Legré states that the dizzying success of China is the consequence of opening of its market and economy liberation for inflow of foreign investment.⁶ Despite the Asian crisis of 1997, neither India nor China have collapsed. In fact, they progressed in that period even above average. Why? They held control over its capital and a variety of other restrictions which enabled control of its flow and investment.⁷ Whatever market reforms that have been carried out , these countries adhered to the rule to view modernization from the national aspect and to implement it in the interest of the national state.

The Chinese government still controls a great part of the country's industry nowadays and invests huge amounts of money in infrastructure. However, the main task of the Chinese government is to solve the problem of poverty in the country by opening up to the rest of the world and liberating its economy. China's economic explosion resulted that average Chinese, every fifth inhabitant of the planet was six times richer. Between 1990 and 1998, the number of Chinese who lived on less than a dollar a day fell by 150 million. It was the fastest drop of poverty the world has ever seen.⁸ The main economic threats to human security are precisely poverty, disease and hunger. While globalization creates new opportunities for economic progress and development, it is possible ,on the other hand, that it may create deep social

⁵ Ibid

⁶ <https://sr.scribd.com/document/52402557/Doba-globalizacije-Pecujlic-Nakarada> (retrieved: 15.04.2017 at 18:00)

⁷ Stiglitz, Globalization and its Discontents, Penguin Books, 2003, p:125

⁸ <https://sr.scribd.com/document/52402557/Doba-globalizacije-Pecujlic-Nakarada> (retrieved 15.04.2017 at 18:10)

differences and social inequality. Poverty is not only a threat to the individual, but can also be a cause of deterioration of the country. For example, the poorest countries are, as a rule, among the weakest, and vice versa - the richest countries in the world are found mainly among the strongest countries. According to some estimates, the state that has a \$ 250 GDP per capita, has a 15% chance of being affected by a civil war in the next five years, while for a country that has a \$ 5,000 GDP per capita, this chance is less than 1 %.⁹ So, the poor countries have greater chance of outbreak of civil war, and poverty levels can affect the length of the conflict. However, in addition to civil unrest, poverty can also affect the phenomenon of terrorism and extremism which will certainly have an impact both on the national security of the country or can become, the regional and global problem.

Liberalization of economy offers the possibility of free and low-cost flow of people, goods, capital and labor as a condition of economic growth, but countries often lose this fight. Countries with weakened economy, for the sake of ensuring any kind of progress, offer cheap labor and raw materials. As a result, rich countries get richer, while the poor sink to deeper economic inferiority. Such created differences and inequalities in the economic sphere can be only negatively reflected in the area of education, health, public administration. Neoliberalism brings growing differences of social levels that often lead to the brain drain. Such environments are ideal to favor opportunities for implementation of radical and retrograde ideas that may result in national, religious, cultural clashes and conflicts.

In addition to regional conflicts, civil wars, rebellions and terrorism, the threat to global and national security in the XXI century are conflicts over energy generating products. Economic growth aspired by all the countries of the world and the increase of population, urbanization and industrialization have influenced the increase of the world economic growth, which can be hardly followed by the offer of energy generating products. Many countries face with the challenge to provide enough energy in order to meet national needs, but it particularly affects the United States of America, which daily spends about a quarter of the world's available energy offer.¹⁰ In this way, the problem of energy security has become the subject matter of Washington, raising this issue at the highest political level, but also received a military dimension.

Unlike the oil crisis in the seventies of the XX century, this crisis is characterized with its complexity, strong growth in demand for energy and political dimension. The complexity is reflected in the intricacy of the interaction of economic, institutional and environmental actors and the involvement of the entire world market and all energy sources. In most Western countries, the business of purchasing, production and delivery of energy to consumers is mainly carried out by private companies that are doing it for profit. Some of them are the most profitable corporations in the world. State governments also have an important role, because their intervention to ensure the economic welfare of the nation is critical unless the private sector is immature to the task. However, the tendency should be aimed at avoiding excessive

⁹ Marković S., *Bezbednost – Tradicionalna i kritička shvatanja*, FPPS, Novi Sad, 2014, p: 296

¹⁰ Vilijams Pol, *Uvod u studije bezbednosti*, Fakultet bezbednosti, 2012, p: 605

dependence on some form of non-renewable energy choices, in order to avoid an energy crisis that would lead to economic disaster.

Despite the fact that globalization has enabled the development of a global civil society and the creation of a "global village", the economist, Martin Wolf in his observation for the Financial Times in 2002, indicates that while most people believe that the importance of nations is getting smaller, in reality, borders have never been more important.¹¹ Referring to the numbers and statistics, John Rastol Sol appears with an interesting conclusion that the borders within which one was born will determine our lives.

Namely, foreign investment in high-income countries amounts to an average of \$ 6,000 per capita; in countries with low income, \$ 400; 900 million people in countries within the first category, and 5.2 billion in the other two. Thus, the outcome will only partially depend on the economy. The original reason for the given outcome, however, will be the social structure of our national state.¹²

2.2. Social-political challenges

The formation of the new world order is carried out, inter alia, through globalization.

Globalization can be defined as "the process of interrelated effects of political, economic, and military activities of a number of political, military and business entities led by the United States as the country which carries out globalization, which direct the movement of total human society towards implementation of the postulates of the globalization ideology" or as "the process of expansion of the global community of democratic, market-oriented countries, achieved in economic, political, cultural or any other field."¹³ "So, America is inspired by the conviction that it will shape the path of humanity, and it played a major role in the world order: it has made a crucial influence on the events, at the same time formed internal-political principles as universal, affected the spread of values that are considered to be desired by all other peoples that tend to adopt them.

The characteristic of the second half of the twentieth and beginning of the twenty-first century is spreading awareness about the power of democratic changes. The promotion of democratic values which includes the rule of law needed for formation and preservation of human freedoms echoed in the Arab world as a spectacular display of courage, dedication and commitment of national forces to democracy. The overthrow of the dictatorial regimes, from Portugal to countries in the Middle East and Africa, can be explained by the demonstrated success, and thus it has become an attractive idea that is voluntarily adopted.¹⁴

On the other hand, some occurrences have appeared with the tendency to ruin a social order, such as terrorism, ethnic and religious extremism, organized crime, corruption, migration, proliferation of weapons of mass destruction.

¹¹ Martin Wolf, "Location, Location, Location Equals the Wealth of Nations", Financial Times (London), 25.09.2002

¹² Sol Rastol Saul, Propast globalizma i preoblikovanje sveta, Arhipelag, Beograd, 2011, p: 248

¹³ Simeunović Dragan, Nacija i globalizacija, Zograf, Niš, 2010, p:107-108

¹⁴ Majkl Mendalbaum, Ideje koje su osvojile svet, Beograd, 2004, p:198

Migrations , as security challenge, risk and threat, got on its significance after the Cold War. Migration is not a new phenomenon . For centuries, people have left their homes in search for a better life elsewhere. In the last decade, the process of globalization has caused an unprecedented amount of migration from the least developed countries in Asia, Africa, Latin America and Eastern Europe to Western Europe, Australia and North America.

Today, there is no country in the world that is more or less exposed to the impact of international migration. The reasons for migration are mainly seen in poverty, natural disasters, socio - economic instability, wars, ethnic, religious or religious persecution. If properly controlled , they can be seen, with adequate policies, as the potential for progress both in developed and developing countries. However, a series of migrations which started in 2010 and experienced its escalation in 2015, especially in area of Syria, where a civil war caused a mass exodus of people to neighboring countries, show that the nation-state is still needed.¹⁵ The national state which was written off a long time ago in a phenomenological aspect and the aspect of use, certainly survives, despite all the globalist announcement of its end, and the latest developments regarding the migration suggest that it even announces its big comeback. Raising walls, restoration of national borders and the setting up of border guards on long erased national borders throughout the EU are not only political and civilizational anomalies, but also a visible proof of that.

In addition that Globalization has enabled the development of economic, transnational links and linking of economy, it has allowed the illegal trade of drugs, arms and human trafficking, and transnational networking of organized criminal groups and terrorist organizations.

The global war against terrorism was raised to the level of the main security challenges and safety. It is not easy to define terrorism today , because there are countless forms and there are many resources at its disposal , but terrorism can be recognized by anyone. One important feature of terrorism of the 21st century, which makes it more efficient, is new media, communication systems, telecommunication networks, such as mobile phones, Internet and social networks. Today, the kidnapping and killing of civilians, hijacking, attacks on social achievements are transmitted in a real time via the small screen.

In postbipolar world, the understanding and responsibility for security has been changed towards: international organizations, regional and local authorities, non-governmental organizations, public opinion and the media. Democratic values, the rule of law, preservation of human rights and freedoms are goals that can be achieved only in a peaceful environment. Through international organizations such as the International Monetary Fund, World Bank, NATO, the most developed countries of the world project their influence and power to the rest of the world. The global elite of power has turned into, a de facto, decision-making entity without a "higher authority" above, nor democratic control.¹⁶ In this way, other countries in the world only implement the orders of the ruling and most developed countries.

¹⁵ See more: Simeunović D, MIGRACIJE KAO UZROK POLITIČKIH ANOMALIJA U EVROPI, (available at <http://scindeks-clanci.ceon.rs/data/pdf/0354-8872/2015/0354-88721503001S.pdf>)

¹⁶ <https://sr.scribd.com/document/52402557/Doba-globalizacije-Pecujlic-Nakarada> (accessed: 15.04.2017, 20:00)

However, we often talk about help to opposition political forces motivated by spreading of democracy and human rights protection, which can lead to destabilization of the ruling structures, which can be transformed into a "non-violent revolution".

Globalization of international relations imposed the need for new concepts of security. Events such as the fall of the Berlin Wall, the reunification of Germany and the collapse of the Soviet Union has led to the collapse of the bipolar system, the opening of the world market and consideration of security as the issue of neoliberal country. This is just a prelude to a new approach to studying the phenomenon of security, which is dominated by a very interrelated relationships of various entities with new non-military threats, such as the collapse of state institutions and their transformation into the territories of generated internal conflicts, organized and global crime, but also issues of cultural identity, the possible chances for demographic and sustainable development. The new understanding of security in the period after the Cold War, was spread from military to other dimensions of society, such as ecology, politics, deconomy. The concept of security has not only expanded but also deepened. Objects of security are no longer only states and the international system of states, but also an individual, a social group, a region and the global society.

2.3. Cultural Challenges

What characterizes the culture of the 21st century is its dependence and its transformation by the unique technological revolution, particularly the technology of relations and reproduction as well as a mass consumer society. Modern information and media technologies have allowed faster, easier and cheaper communication. However, culture as a means of cooperation and development is an excellent instrument for different fights and skirmishes.

The exchange of cultural products, news, information about the world events through modern information flows almost imperceptibly change the local cultural identity. Interconnection and openness to the world is evident in terms of cultural goods, from clothing to food, music, movies, architecture. People get aware about the impact of global events on the local environment and vice versa. Exposed to daily impact of global information, "citizens of the world" form a cosmopolitan culture and create a global cultural identity. However, for many, the tendency towards the formation of global patterns of behavior and global culture has led to discontent, fear and uncertainty for their own traditional values, such as national and cultural originality.

The sphere of culture, however, can be a great starting point and offer justification for conflict between groups, especially among nations. The central problem which is highlighted is the problem of identity, resistance, sacrifice of their own culture: the struggle over language and religion, cultural or territorial autonomy of groups, the right to self-determination and their own state. Cultural nationalism - which is overnight transformed into political nationalism, whose aim is to create their own nation-states by all means - initiates the tide of violence, ethnic and religious wars. However, local, internal national conflicts usually contain seeds of escalation, that is, international dimension.¹⁷ As pointed out by a famous American political scientist

¹⁷ <http://www.bos.rs/materijali/aspekti.pdf> (accessed: 10.04.2017, 20:45)

Samuel Huntington, who has stirred the public with his book "The Clash of Civilizations and the Remaking of World Order" after the Cold War, the world politics is entering a phase when civilizations compete instead of great forces and ideologies. He claims that security dynamics that takes place between great civilizations is far more intense than the security dynamics that is going on inside them.

Taking into account the history of groups and their perception of oneself and others, some of the authors indicate that many groups have legitimate reasons for dissatisfaction with other groups, which originates from the traumatized historical experience and which are activated in certain social circumstances and usually result in civil wars, genocides, long-hostility and state disintegration. A large number of ethnic conflicts in Southeast Europe from the end of the Cold War suggests that inter-ethnic hatred is the consequence of its own creation by political elites due to the crisis or the lack of legitimate authority.¹⁸ Thus, cultural - historical, ethnic, religious differences have become the main and decisive factor of the conflict, especially in conjunction with the determination of political elites to maintain or win power in societies that are in socio - economic crisis.

Social and economic instability of the society are particularly vulnerable and susceptible to the conflict. A large number of poor and unemployed young people faced with uncertain reality often turn to religion and faith. Huntington emphasizes the problem of young Muslims': „Religious communities respond to the broad needs left unsatisfied by that state bureaucracy and the market. Religion is not the opium, but vitamin for already weakened spiritual body. Muslims are massively turning to Islam as a source of hope, identity and international solidarity of Islamic countries, a kind of religious social state within the secular state."¹⁹ Although it is considered that national states and nations are the key actors of the security implications, however, the greatest security challenges are actually ethnic and religious extremists who resort to terrorism as a means of achieving their goals.

2.4. Ecological Challenges

Science and technology are the leading concepts of our time. They managed to bring about progress in building the well-being of a man without precedent, and so they surpass all traditional cultural limitations.

However, it is a dangerous weapon that can destroy humanity. In mid-nineteenth and early twentieth century, a scientific thought on the impact of a man as a threat to the environment began to be born. The number of inhabitants of the planet Earth in the 18th century was increased by a quarter of a billion every seventy-five years. Today, such an increase occurs every three years.²⁰ How to find a solution to resist poverty, malnutrition, migration, conflicts and waste of resources by the use of available natural resources which become more and more exhaustible due to technological advances or are questionable in terms of their validity. Does the society have an obligation to preserve the environment and the whole life in it?

¹⁸ Milašinović S., Jeftović Z., Despotović Lj, „Politika, mediji, bezbednost“, KPA, Beograd, 2012, p:79

¹⁹ Samjuel Hantington, „Sukob civilizacija i preuređenje svetskog poretka“, Pečujlić, Globalizacija dva lika, (retrieved 15.04.2017 <http://www.bos.rs/materijali/aspekti.pdf>)

²⁰ Kenedi P., „Priprema za 21. Vek“, Službeni list SRJ, Beograd, 1993, p:28

How to coordinate the smooth development of the society while preserving natural resources and the environment at the same time?

It was only at the Conference on the Human Environment (UNCHE) which was held in Stockholm in 1972, that the environmental protection was for the first time accepted as the universal security problem. In recent years, there is an increasing number of scientists and researchers who give special importance to ecology, putting them at the center of their scientific research of the phenomena that affect the deterioration of the environment. Humanity is faced with new security threats by environmental pollution and life in it.

Ecological challenges are reflected at national, regional and global level, indicating a need for a strategic, comprehensive and systematic approach to solving the problems of environmental protection. Environmental threats affect the whole world, but not in the same manner and with the same intensity. They receive a special treatment when express the effects of ecological crisis, although another important characteristic is that they are gradual threats. A terrorist act can take several hundreds, even thousands of lives in a second. However, when it comes to environmental threats, they materialize gradually.²¹ Sources of threats to the environment are usually man-made due to his ignorance, negligence, incidents, but ecological threats cannot be easily observed. The term "man-made effects to the environment usually refer to the impact of multinational corporations on nature. World processes and the impact on climate change and the environment have essentially a global character, and large corporations are carriers, often as ordering parties and funders. Through a system of global relations and adaptation of policies and market economy, with the application of science and scientific developments, they want to impact the climate change and adapt to the climate, soil and treatment to achieve greater revenue.²² There is an unwritten rule in multinational companies that a country must first develop and make rich and then worry about the preservation of the environment.²³ Underdeveloped country really pose a threat to the ecology. They do not have sufficiently developed awareness and a system that would protect its natural environment, in addition to that, they generally have obsolete technology. Market and economy are focused on the growth of GDP and not to the quality of life and products, so that priority is often given to profit rather than environmental benefits of efficiency. Thus, the third world countries suffer the greatest damage because they have no way to invest in ecological processes. However, they are minor polluters of the environment in comparison with the leading economic powers of the world such as America and China. According to some studies²⁴, America, China, Russia, Brazil, India, Germany and the United Kingdom are responsible for more than 60 percent of climate change that have been recorded from 1906 to 2005. Bearing in mind the contemporary trends, it is reasonable to ask whether the problems in the environment can lead to conflict as people compete for resources? Where countries are not strong, where economic development is at an

²¹ Marković S., „Bezbednost – tradicionalna i kritička shvatanja“, FPPS, Novi Sad, 2014, p: 305

²² Navedeno prema: Pejanović Lj, Mitić M., „Uticaj na klimatske promene kao oružje ljudske moći“, Međunarodni naučni skup „Dani Bezbednosti“, Banja Luka, 2016, p:199-207

²³ Živkov D., Globalizacija i problemi ekologije, Škola biznisa, Visoka poslovna škola strukovnih studija, No: 2, 2008, p:113

²⁴ Matthews D, Graha T., Keeverian S., “National contributions to observed global warming. Environmental Research Letters”, Environmental Research Letters,9, 2014

early stage and where valuable resources, including minerals, oil and sometimes timber are easily accessible, there is a great incentive for people and ethnic groups to use violence or attempt to gain control over revenues from resources when they get exported to higher world market.²⁵ Poor societies dependent on natural resources as well as the disproportionate consumption of limited resources favor the outbreak of the conflict. As pointed out by Paul Kennedy's book "Preparing for the 21st Century", globalization has produced a permanent problem, even irreversible transformation of the planet. Deforestation is destroying the world's ecosystem. Industrial development has been accompanied by pollution of soil and water and emissions of harmful gases that are eroding the ozone layer and polluting the air. A lot has been done on the reduction of "dirty" industries, filtering and finding alternative energy sources.²⁶ In addition, the decline of biodiversity, destruction of oceanic and terrestrial habitats, melting glaciers, exposure to radiation, climatic disturbances contribute to human insecurity and are a sure sign that countries alone are unable to cope with them. Environmental threats have also influenced the increase of ecological awareness worldwide which may be the key point for a much-needed reform.

3. CONCLUSION

Having on mind the pre-stated, it can be pointed out that globalization is a complex and complicated problem. Many theorists, explaining its causal connection, state that it is necessary to understanding economic, political, social, cultural and environmental dimensions in order to get an objective - a realistic picture. Somehow it turned out that each dimension of globalization has its positive and negative sides. This leads to the conclusion that it is about the process that is extremely contradictory. While at the one side it seems to be a powerful instrument of connection and creation of interdependence, on the other hand ,it can disintegrate and make fragmentation. The fact is that even those theorists who somehow recognize illogicality and persistently complain against this process as a whole ,have an obligation to start their disapproval with approval. Globalization and all its consequences, cannot be returned back, because they have come here to stay. The only possibility for the society is to understand the processes that occur and to adjust. The enormous wealth of the world is in the hands of a small number of people who make the powerful elite, while on the other hand, there are hordes of dissatisfied people and the poor. Demographic changes and social problems are becoming today the basis of confrontation and fragmentation, which tells us that the social and political reality have not been developed in the way it was intended. Although there was a belief that the world would be turned towards the peace and prosperity, today's complexities of real life imposes the need to re-set the course of movement. The most powerful countries in the world, through supranational institutions and powerful elite groups, have established an authoritarian hegemonic world system, where the small states become most vulnerable. Looking at safety in a new time and modern challenges, risks and threats faced by the society, it is certain that nothing will be as it was. In this age of rapid changes , the security will be the most demanded good on the market.

²⁵ See more: Viliams Pol, Uvod u studije bezbednosti, Fakultet bezbednosti, 2012, p:348

²⁶ <http://www.bos.rs/materijali/aspekti.pdf> (14,04,2017, 21:20)

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MARKETING ORIENTATION AS THE KEY TO DIFFERENTIATION AND POSITIONING OF EDUCATIONAL INSTITUTIONS IN THE SERVICE MARKET

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ABSTRACT

Educational institutions are key in the development of a knowledge society and therefore must be accompanied by technological and social trends in the region and its business and services adapt to the environment in which they operate and to the needs and preferences of its users. Services with its characteristics of indivisibility, intangibility, diversity and no storage are special category of "product" on the market, and their customers and users are looking for evidence of quality or delivery of superior service that differentiates one institution over the competition. The perception at the service plays a key role since it is based on expectations that are formed on the basis of ad experiences, recommendations and likes, and satisfaction is the result of fulfilled expectations. Superior service is crucial for the selection of institutions by end consumers or prospective students, which is being developed through quality management services. Market oriented educational institutions, through increasing the quality of services, the development of the program in accordance with the needs and desires and the needs of the labor market, building the brand, and a host of other activities that stimulate the production of marketing culture are essential in the differentiation of an educational institution in relation to the other and its positioning at the educational services market.

Keywords: *differentiation, education, marketing concept, superior service*

1. INTRODUCTION

The strategy of education, science and technology defines education and science as the development priorities of the Republic of Croatia, which can only bring long-term social stability, economic progress and cultural identity through dynamic changes in society, economy and culture. In a globalized world with the application of new technologies, environmental protection and population aging, which can be tackled only with the help of science, as it has limited human, material and natural resources which must be used in the best way by adjusting market conditions.

Education and science are particular public interest, and the concept of social marketing, according to Kotler (Kotler, 2006, p.17), assumes that the organization should identify needs, desires and interests of the target market provide the desired satisfaction more efficiently and more effectively than competition in a way, that maintains or improves the welfare of consumers and society. The enlightened marketing philosophy maintains that marketing companies should support the best long-term marketing system results. Social marketing is one of five principles of enlightened marketing besides consumer-oriented marketing, marketing of innovation, value-added marketing and marketing with a mission (Kotler, Wong, Saunders, Armstrong, 2006, p. 918).

Non-economic activities or organizations such as faculties, charities, churches, various non-profit organizations, hospitals and the like are applying non-profit marketing, while social marketing is limited to social activities and marketing of social associations or marketing that is related, directly or indirectly, to social changes.

The emergence and development of a non-profit sector can be linked to the concept of social responsibility (community care and community care), but also to community affiliation as a group of people who are socially and otherwise tied and depend on each other (Pavičić, 2003, p. 16).

Currently, in the Republic of Croatia, there are 119 institutions of higher education: 8 public universities, 2 private universities, 68 faculties and art academies, and 1 university centre at public universities, 4 private polytechnics, 11 public polytechnics, 22 private high schools and 3 public high schools that provide educational services.¹

All of these institutions operate on the educational services market, and they are directly or indirectly competitive with each other, so they must monitor the technological and social trends from the environment and adapt their business and services to the environment in which they operate in order to fully satisfy the needs and desires of their final users.

The paper deals with the possibilities of delivery and the ways of creating benefit in providing of services that will through marketing orientation result with a superior service that will effect on the differentiation of one institution in relation to the other, or its positioning on the educational services market. It should start from the very role of marketing, finding, creating and satisfying the wishes of consumers, taking care of long-term consumer interests and ultimately the society as a whole.

2. MARKET SERVICE AND MARKETING ORIENTATION

The American Marketing Association decided in 1960 to accept the following definition: "Services are activities, benefits and satisfactions that are offered for sale or are provided in connection with the sale of goods" (Došen Ozretić, 2002, p.19).

When designing a marketing strategy for services, it should start from the specific features of services: intangibility, indivisibility, unmanageability, heterogeneity and absence of ownership as well as understanding of the relationship between the service provider and the service user. The goal of each educational institution must be to understand the behaviour of the users of services, their needs and wishes and their expectations. On the behaviour of future users of a particular service (end users) is influenced by a large number of interconnected factors and can be grouped into three groups, such as social, personal or psychological processes.

Contemporary marketing concept considers the needs and desires of the target market, building loyalty and trust, as well as the needs of society as a relatively homogenous community of people sharing a common culture and values no matter what the participants and social processes are doing.

Traditional marketing approach 4P is successfully applied to products, but for services, additional elements are needed. Three additional marketing service elements are:

1. People
2. Physical evidence
3. Process (Rakić, 2002, p. 555).

¹ Agencija za znanost i obrazovanje retrieved on <https://www.azvo.hr/hr/visoko-obrazovanje/visoka-ucilista>

The marketing activities of each organization imply its marketing orientation. A marketing-oriented organization is the organization in which the three pillars of the marketing concept - customer focus, coordinated marketing and profitability - are manifested in operational terms (Kohli, Jaworski, 1990, p. 3).

The marketing plan of activities is a key document to inform and convince consumers in the value of the service offered on the market. In order to be able to form an adequate offer in accordance with the needs and wishes of future users, the marketing process must start with the activities of gathering relevant information for identifying and defining the marketing opportunities. They have to be formulated in the marketing activity plan of the institution where the following are considered through the situational analysis: target markets, behavioural factors of consumers, needs and trends, swot analysis (the company's strengths and weaknesses, opportunities and threats from the environment), competition and service offerings as well as key activities for success. Through the elements of marketing strategy, it is necessary to define the vision and mission of the institution, marketing and financial goals for selected target markets and the strategy of positioning the service through all the elements of marketing mix that in the case of services consists of 7P - product, place, price, promotion, people, physical evidence and process. Performing all activities must include financial projections as well as organization control processes and the implementation of all activities.

Therefore, when considering activities on which should be focus of the implementation strategy, it is crucial to point out and pay attention to the following elements:

- Which marketing strategy to apply (mass or non-differentiated marketing, differentiated marketing or concentrated marketing) depending on the market or market segment where we want to act or apply holistic marketing through external marketing (preparation, price formation, distribution and promotion), internal marketing (training and motivating employees to serve clients) or interactive marketing (the ability of employees to serve a client)
- Which is a part of the service that can be expressed as a value added with a special adaptation to the wishes and service users,
- Which approach creates loyalty to existing users and how to attract new users
- How to improve our service through the quality system
- How to create a brand of institutions or create a service that will be asserted on the market, which will be a reflection of quality and competitive asset (could it be interior, exterior, space, equipment, people, technology, or accessibility to students?...)

The service users evaluates the service by comparing its perceptions with expectations, and satisfaction is a subjective value that differs from user to user depending on perception or expectation to the service itself. The competitive advantage of one institution in relation to the other is achieved in that part of the creation of as much subjective service value at the user. "At the same time, market and modern business, as well as modern education, require alignment with new learning trends, teaching methodology and management in the education sector. Strengthening the knowledge society thus does not only serve as an educational one, but as a social and economic process, which requires the branding of education as a condition for personal development of the individual and the global development of modern society." (Vrban, 2014, p. 45-60).

"Creating and developing brand within the higher education institutions enables strengthening of their market position" because "the business success of a higher education institution on the target market depends on how well it is positioned or how superior it is to compete with the target market. Successful differentiation and positioning on the market assumes the creation and development of the inside. A good brand will enable universities to strengthen their competitive position as the ultimate goal of an organization." (Melović, Mitrović, 2014).

3. PERCEPTION OF SERVICE USERS THROUGH DIFFERENTIATION AND POSITIONING

"Perception is defined as a process by which an individual chooses, organizes and interprets stimulations into a meaningful and coercive picture of the world. It can be described as "the way we see the world around us. The image of a product that lays in consumer awareness – i.e. its positioning - is probably more crucial to its ultimate success than the actual product characteristics. Providers are trying to differentiate their product by emphasizing the features they consider to meet the needs of consumers better than the brand of competing manufacturers. Positioning strategy is the core of a marketing mix; it complements the company's segmentation strategy and target market selection. Positioning informs the term, or the meaning of a product or service in terms of how it meets the needs of consumers" .(Schiffman, Kanuk 2004, p. 141).

Some researchers believe that the consumer's rating of the quality is the function of size and the direction of the gap between his expectations regarding the quality of service and the perception of the truly provided service. For example, a newly enrolled student may have quite specific expectations about the intellectual abilities of its colleagues ... The quality rating of this faculty is based on its expectations, which are largely based on its origins and past experience. If the services of the faculty are below the expectations of the student, she will be able to experience this as a low quality. If its expectations are exceeded, the chosen faculty is considered to be high-quality educational institution (Schiffman, Kanuk 2004, p. 147).

Requirements of service customers are changing due to globalization, changing environment, changing lifestyles and changing needs, so all businesses and service providers need to follow and adapt the way they do business and identify new needs to change the offer and meet customer requirements and ultimately meet their expectations. As services are specific to their characteristics, situational factors such as the physical and social environment play a key role in choosing a particular service. Physical environments such as interior, exterior or atmosphere in the building itself reflect the image itself, and the interior must be designed to challenge the specific feelings of the consumer and create a sense of comfort, satisfaction, quality in the minds of future users and influence the ultimate choice. Creating an image of an institution is also influenced by the way the service is provided, the place of providing services, equipment, employees, or all of these elements. If they approach the marketing aspect, they act only to position and differentiate not only the service we provide but also the institution itself by which it stands out from the competition and has a distinct advantage on the market.

"The organization creates and shapes the image of its activities, by creating an adequate product/service, activities of external and internal marketing, and expanding the educational public. A good image enables faster and easier recognition and selection of products/services of organizations in the "sea" of similar. "It is well-known in the economic theory that the image of the organization for the production of consumer goods is created by means of marketing tools." (Miljković, Kovačević, 2011, p. 135-156).

Positioning of service provider implies a space that a service company seeks to take into the user's consciousness, or even more precisely, in the thinking of differentiation users based on who offers what and who is better or worse (Došen Ozretić, 2002, p.58).

"Quality, though not easy to define, is mostly due to the interaction of teachers, students and the institutional learning environment. Assurance of quality must enable such a learning environment in which the content of the program, learning opportunities and resources meet its purpose. It is at the very core of all activities to ensure the quality of dual purpose - responsibility and improvement - which, viewed united, creates confidence in the work of higher education. Each successful quality assurance system will provide information in order to convince the university and the public of the quality of work of a higher education institution (liability), as well as to provide advice and recommendations on what can be done to improve this work. Quality assurance and quality improvement are interconnected. They can support the development of a quality culture that everyone accepts: from students and science-teaching staff to leading people and the administration of a higher education institution. "²

Accepting marketing philosophy in educational institutions requires that the whole institution is thinking in the context of marketing concepts and market achievements, that is, that the whole institution is living its vision and mission.

"The key terms that needed to be focused on are: consumer needs, market sharing, competitors and their positioning, and the development of new products or services in line with market trends." (Leko Šimić, Čarapić, 2008, p. 87-98).

4. PUBLICITIY AND INFORMATION SERVICES FOR PUBLIC HIGHER EDUCATION IN THE REPUBLIC OF CROATIA

No later than sixty days after the budget or financial plan has been issued, the public contracting authority is obliged to publish a procurement plan on its web site in accordance with the Public Procurement Act. In the Republic of Croatia, the majority share of the educational services market are public education institutions, approximately 80% while the other 20% are private higher education institutions. Since private institutions are not obligated to publish a procurement plan for a given year on its website, further is a review of public institutions data (public universities, polytechnics and colleges) with planned amounts for 2017 for publicity and information services, promotional material and other advertising and information services in accordance with their published Procurement Plans.

All listed institutions that have published the Procurement Plan also have a plan for advertising and information services as well as for promotional materials of their institutions. This is pointing to their marketing orientation and awareness that marketing activities are key to informing and persuading future users into the value of services offered in the competitive education services market.

² Standardi i smjernice za osiguravanje kvalitete na Europskom prostoru visokog obrazovanja (ESG) (chrome-extension://oemmnadbldboiebfnladdacbfmadadm/https://www.azvo.hr/images/stories/kvaliteta/ESG_HR_final.pdf; 17.04.2017.

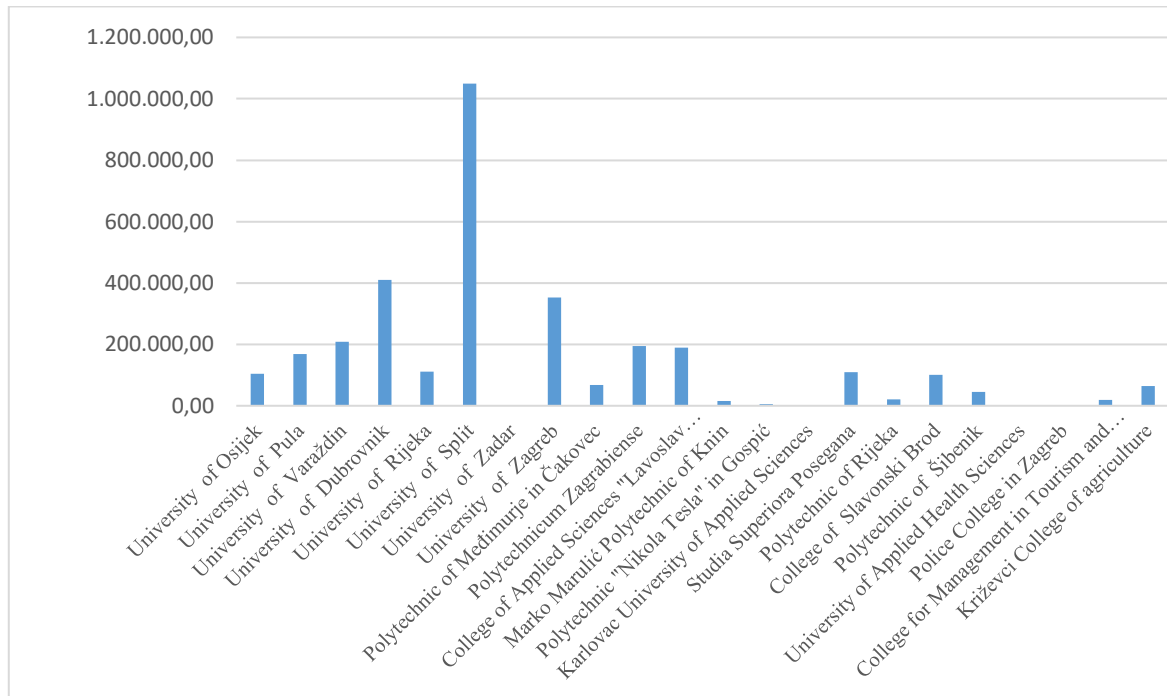


Figure 1. Planned amounts for publicity and information services of public higher education institutions in 2017 (author's creation)

5. CONCLUSION

Education and science as a development priority defined by the Strategy of education, science and technology is the goal of educational institutions that strive to meet the needs and desires of their end-users - students in line with the needs of the labour market and thus fulfil their social responsibility. Marketing orientation in a competitive education services market between 104 public higher education institutions and 27 private higher education institutions currently in the Republic of Croatia, according to the Agency for Science and Higher Education, is crucial because only value-added services and fulfilling future students expectations are what affects that offer of superior services is the ultimate student choice.

Image of the institution is systematically built through the quality of study programs, international cooperation, teaching staff, equipment, interior, alumni association, renowned guest lecturers and professors from industry and economy, Erasmus collaboration, scientific projects of the institution and a range of other activities. By all these activities, the institution realizes its visibility on the educational services market and influence the perception of both current and future service users (students), and affects positioning the institution itself and differentiating services from other institutions. Ultimately, it affects the ultimate decision of the end user and their choice of superior service.

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THE MARKETING KNOWLEDGE OF GENIUS MARKETERS AS A COMBINATION OF EINSTEIN AND PICASSO: THE STUDENTS' PERSPECTIVE

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ABSTRACT

Fiske's idea that genius marketers combine the intelligence of Einstein and the imagination of Picasso is frequently stated. Are genius marketers born or created? This paper analyzes the results of the research done by students into how the marketing knowledge of genius marketers as a combination of Einstein and Picasso is created. The purpose of this paper was to determine what marketing knowledge is, and how it is transferred from the marketing students' perspective. This paper gives the responses to the following questions – what is more necessary marketing theory or marketing practice, what teaching methods are the best, what are “ideal” academics and textbooks. The results of research show that marketing students value the most the combination of theoretical and practical knowledge, intelligence and imagination, interactivity with their academics, and the use of contemporary examples from practice on classes and in textbooks. The holistic approach to marketing knowledge leads towards the differentiating marketing actors as a genius as a combination of Einstein and Picasso. Genius marketers understand the significance of the interactions of all marketing actors (academics, students and practitioners) in the process of the co-creation of marketing knowledge, observe marketing as a science and an art, give equal significance to the marketing theory and practice, intelligence and imagination. Genius marketers monitor changes in a digital environment and use digital technologies for the creation, the presentation and the exchange of a digital marketing content.

Keywords: *Digital technologies, Education, Genius marketers, Marketing knowledge, Students' perspective*

1. INTRODUCTION

“Genius marketers combine the intelligence of Einstein and imagination of Picasso to focus their efforts, build brands, drive innovation, and to deliver extraordinary results” (Fiske, 2005). Marketing needs to be more intelligent and imaginative. It must combine a more rigorous analysis and more radical creativity in order to make sense and stand out in today's markets. Genius marketing requires skills and confidence in order to make the best ideas happen. It brings together left- and right-brain thinking and a practical, integrated action. A genius is characterized by original, creative, observational, visual, holistic, pragmatic, volume, dual and analytical thinking (Fiske, 2005). Apart from being familiar with marketing theory and marketing practice, the characteristics of marketers' personalities also need to be improved. Those are the starting grounds of the research done by the students in this paper. “Dealing only with the (marketing) theory, without practice – is useless. Dealing only with the (marketing) practice, without theory – is dangerous. Trying the first, or the latter, without improving our essential qualities – ourselves as personalities – is difficult and often ineffective” (Mark Plan, 1995). Marketers need to change personally – be more strategic, innovative and commercial – in order to drive the market and the business. They do not need to be on board, but they do

make the best CEOs (Fiske, 2005). This paper analyzes the results of the research done by the students into what marketing knowledge is and how it participates in the creation and transfer of knowledge, what it is that a marketing actor needs in order for him or her to become a genius marketer.

2. THEORETICAL FOUNDATIONS AND RESEARCH QUESTIONS

Marketing knowledge is created and transferred by “marketing ambassadors” at graduate schools and numerous organizations, which daily implement marketing principles in their operations. The key “marketing ambassadors” are academics, marketing practitioners and students (Rakic and Rakic, 2014). “University marketing educators play an important role in the education of the next generation of marketing professionals. Marketing educators are in a position to influence future generations of marketing practitioners” (Gibson-Sweet et al., 2010, p. 931).

The gap between academics and marketing practitioners, marketing theory and marketing practice is stated in the literature. In addition, the literature points out the non-usability – uselessness of theoretical knowledge that students acquire in graduate schools (Rybnicek, Ruhri and Suk, 2015). In marketing, the question of relevance of academic research and teaching to practice is being put. A common finding is that marketing managers find marketing theory to be abstract and of little relevance to their work (Ankers and Brennan, 2002; Brennan, 2004; Gray et al., 2007). A number of studies have identified differences between managers’ and academics’ views about what should be taught in business schools (Gray et al., 2007). Students are not only passive recipients of educational services, but “co-producers” of education as well education (Kotzé and Plessis, 2003). In line with the importance of students the transfer of marketing knowledge, marketing students’ views about how marketing should be taught in graduate schools are in the focus of this paper. What do students think about marketing knowledge that is transferred to them in graduate schools? Is it useful? How is it transferred? How it should be transferred? Which are the “ideal” teaching methods? What are the “ideal” academics and textbooks? Precisely, the purpose of this paper is to give answers to the aforementioned questions. Taking it into account, the aim of this paper is to answer the following main survey question (RQ):

RQ1. What is the marketing knowledge from the students' perspective?

The second question was regarding the importance of marketing subjects.

RQ2. Which of marketing subjects are the most important? Provided answers were: marketing, strategic marketing, marketing management, consumer behavior, international marketing, public relations, integrated marketing communications and other.

Knowledge of a wide range of marketing subject areas is the “foundation” of marketing knowledge. Besides marketing knowledge, the following skills of marketing students are important: willingness to learn, interpersonal skills, problem solving, written communication, teamwork, flexibility and adaptability, oral communication, ability to plan own work, multi-disciplinary perspective, and analytical skills (Gray et al., 2007). “Nevertheless, being autonomous, which implies knowing how to cope, think, choose, make decisions, self-manage and be responsible for self-care, also means assuming responsibilities not only in the strictly private sphere, but in the interpersonal and community spheres as well” (Caba-Collado, López-Atxurra and Bobowik, 2016, p. 185). Marketing educators apply numerous learning activities, in order to stimulate students to learn and implement marketing knowledge. Achieving true education depends on how students respond to the learning activities. In order to understand which activities are the most effective in accomplishing the educational objectives of their courses, marketing educators have to start from students' responses (Karns, 1993). For marketing education, on one hand, the balance between marketing theory and marketing

practice is necessary; academics, teaching methods and textbooks. On the other hand, motivated students are needed. As a result we should have marketing knowledge and skills of academics, students and practitioners. Students want more interactive classes that engage student learning. Academics, too, prefer engaging with students. The interaction requires that students should be prepared and willing to participate actively in classes, so that it would not be one-way communication on relation: an academic – students (Ho and Polonsky, 2009). Co-operative teamwork among students is increasingly common in marketing education (Kates, 2002). “Active learning contributes more positively to student learning than a passive approach with a straight lecture-style format. In active learning, the focus is on the student experience where the instructor allows students to engage in the course content through practical activities. These activities include a variety of things such as role-playing, case studies, games, and internships” (Schee, 2011, p. 63). Graeff (2010) suggests to academics a strategic teaching for active learning. Instead of spending time reviewing the PowerPoint slides that accompany the textbook, marketing educators should spend more time designing in-class exercises or activities that let students practice skills they are learning in class and demonstrate their learning.

Karns (2005) highlights 21 learning activities which are used by marketing educators: lectures, film/video, discussion, guest speaker, case analysis, text/readings, simulation, multiple-choice test, essay test, term paper, live case projects, role playing, on-line discussion, case/business plan competitions, student presentations, student operated business, internship, field topics, diaries/journaling, course Web-sites and homework (Table 1). Karns (2005) found that marketing students evaluate learning methods on the three dimensions “enjoyable”, “challenging” and “real world”. The results of research of marketing student perceptions of learning activities (preferences and effectiveness) show that internships, class discussion, and case analyses were seen by students as the learning activities that most contribute to their learning. Course Web sites and online discussion were seen as relatively less effective in contributing to student learning. Students react positively to internships, student-operated business, live-case projects, student presentations, and case/business competitions because of the real-world, applied connections of these activities. On the other hand, marketing educators have made progress in transforming lectures, term papers, and tests, yielding better responsiveness among students by making these learning activities more applied. The role of marketing educators has been changing, so that students’ learning, rather than teaching becomes the key instructor's role (Karns, 2005).

In order to implement the acquired theoretical marketing knowledge, case studies are often used. Marketing educators who use cases to teach marketing may choose any of the following major approaches: the traditional case method, live cases, or student-authored cases (SACs) (Corrigan and Craciun, 2012). Advantages of traditional case method are: dominant method used in business education, widely available cases, realistic managerial problems, encourages critical thinking, apply course content (lecture and textbook) to a new situation with few consequences, practice business writing skills, opportunity to rehearse business skills, can be rigorous—students identify facts to make conclusions or decisions, often no best answer. Limitations of traditional case method are: case analysis confined to case author perspective; can be perceived as outdated by students; restricts students to the role of passive reader, observer, analyst of a given situation; solutions may be available to students (cheating); students could already be familiar with case outcome (Corrigan and Craciun, 2012, p. 34). Limitations of traditional case method and students’ want to solve studies relating to current problems of real clients, have led to the implementation of live case method. In teaching student-authored cases are also used. Advantages of live case method are: working with real clients, studying current company problems, active learning where students do their own research and search for solutions. Limitations of live case method are: finding companies willing to disclose information, agreeing on a schedule that fulfills both the company and the students’ objectives,

limited access to company representatives (low priority), faculty workload (Corrigan and Craciun, 2012, p. 34). In teaching student-authored cases are also used. Advantages of student-authored cases are: combines prior case methods' benefits; multiple roles for students—editor, interviewer, negotiator, writer, researcher, and team member; freedom to examine different aspects of a business problem; information is obtained from real-time sources; students have to deal with ambiguities and inconsistencies in information; active case developer, can be implemented with or without a live business client. Limitations of student-authored cases are: not tested with peers, no case solution required, little review or feedback, unlikely to have the case, finding relevant data (Corrigan and Craciun, 2012, p. 34). A particular challenge for marketing educators is the choice of the case method which suits students best in a certain environment. Numerous authors point out the importance of internships in marketing education. Marketing internships typically offer students opportunities to enhance their business skills, insights and knowledge in a compact, pragmatic manner they cannot directly receive though isolated classroom experience (Alpert et al., 2009; Bisoux 2007; Posner 2008; Swanson and Tomkovick 2011, 2012). Cooperation among academics, business people and students is of particular importance. Internships provide “links” to industries (Radisic and Nedeljkovic, 2012). Three participant groups are academics, students, and industry. Work-integrated learning in the form of internships is increasingly important for universities as they seek to compete for students, and seek links with industries. For students, the key benefits are education, gaining employment - “real” experience and earning money (Alpert et al., 2009). Different values of marketing internships for students and internship providers are a particular challenge. Students rated skill development, increased career opportunities, and overall internship attractiveness significantly higher than the internship providers. Internship providers rated workplace environment, intern supervision, and clear learning objectives higher than the students. Marketing educators can use this information to assure benefits both for students and internship providers (Swanson and Tomkovick, 2012).

Table 1: Marketing student perceptions of learning methods – preference and effectiveness ratings (Based on Karns, 2005, p. 169)

Activity	Effectiveness	Preference
Internship	6.78	7.44
Class discussion	6.73	7.27
Case analysis	4.55	6.58
Live-case project	5.43	6.58
Student-operated businesses	5.37	6.57
Lecture	5.43	6.28
Essay test	5.10	6.20
Field trip	6.88	6.20
Homework	4.57	6.10
Student presentations	4.43	6.05
Guest speaker	6.24	6.01
Case/business plan competitions	5.06	6.00
Simulation game	5.61	5.99
Multiple-choice test	7.04	5.99
Term paper	2.88	5.93
Film/video	6.10	5.73
Text/readings	3.29	5.64
Role playing	4.78	5.62
Course web site	5.18	4.99
Online discussion	4.47	4.39
Diary	4.18	4.35

Notes: Effectiveness and preference ratings are mean scores for the student sample;
 1 = not preferred or not effective; 9 = preferred or effective

Marketing ambassadors use digital technologies for the creation, the presentation and the exchange of a digital marketing content. Numerous studies have analyzed the use and the acceptance of technology in education since the publication in 1989 of the seminal work by Davis, Bagozzi and Warshaw, who proposed a Technology Acceptance Model (Davis, Bagozzi

and Warsaw, 1989; Del Barrio-García, Arquero and Romero-Frías, 2015; Rakic and Rakic, 2015, 2017). Digital tools are increasingly being used to support teaching. These tools place new demands on the tasks and responsibilities of the teacher and can influence the teacher (Wake, Dysthe and Mjelstad, 2007). University lectures are increasingly recorded or reproduced and made available to students online. Kinash, Knight and McLean (2015) pose the question: Does Digital Scholarship through Online Lectures Affect Student Learning? Overall conclusions are that an online digital content is a worthwhile learning and teaching pursuit and discipline and the context must be considered in designing a particular approach (Kinash, Knight and McLean, 2015). Information and Communication Technologies (ICTs), particularly the Internet and mobile technologies, have been widely adopted by young generations for social purposes in Western countries. The so-called Web 2.0 or Social Web services play a paramount role in this adoption since they have surpassed the technical and economic barriers to create, share and distribute digital contents through a broad variety of devices (from smartphones to tablets and video-consoles) (Del Barrio-García, Arquero and Romero-Frías, 2015).

Therefore, to explore views of students in relation to marketing theory and marketing practice, significance of teaching methods and characteristics of a good academic and textbook, we ask:

RQ3. What is more necessary, marketing theory or marketing practice?

RQ4. Which teaching methods are the best?

RQ5. What are the characteristics of a good academic?

RQ6. What are the characteristics of a good textbook?

RQ7. What is the impact of digital technologies on teaching and learning in the field of marketing?

3. METHOD

Using a face-to-face questionnaire interview, the research of marketing knowledge from the students' perspective was conducted in Serbia. The sample consisted of 200 undergraduate students in four graduate schools, who were thought by different marketing educators. The questions in the questionnaire were divided into five groups. The first group of questions referred to marketing subjects, the second to teaching method, the third was dedicated to characteristics of an "ideal" academic, and the fourth to characteristics of an "ideal" textbook in the field of marketing. The fifth group of questions referred to the application of digital technologies in teaching and learning.

4. RESULTS

To the first open-end question - what is the marketing knowledge, the majority of students (87%) answered – strategies and tactics of the creation and maintenance of consumers and profit, whereas for 79% it is marketing knowledge – science and art of the creation and maintenance of consumers and profit. To open-end sub-question – what marketing knowledge they need, responses were the following: strategic marketing, planning, marketing research, consumer behavior, organization buying behavior, analysis of competition, positioning strategy, differentiation strategy, strategies of marketing mix, product strategy, pricing strategies, distribution, integrated marketing communications, organization, control and other. For the research of marketing subjects' significance, a 5-point importance scale (range "extremely important" = 1, "very important" = 2, "somewhat important" = 3, "not very important" = 4, "not at all important" = 5) was used. Among offered responses, there were marketing subjects (Marketing, Strategic Marketing, Marketing Management, Consumer Behavior, International Marketing, Public Relations, Integrated Marketing Communications) that were thought in the analysed graduate schools, but also the students had the possibility to suggest some new marketing subject. Mean scores, ranging from 1 to 2, show that students think that all mentioned marketing subjects are important.

It is interesting that marketing as a subject, which is studied in all the analysed graduate schools in the first year of studies was evaluated by majority of students (91%) as “extremely important”. Besides offered marketing subjects, students could add and specify the importance of other subjects. It is interesting that the majority (79%) added Internet Marketing, which is not studied in any of the analysed graduate schools.

In response to the third question - What is more necessary, marketing theory or marketing practice? – the majority of students (86%) answered – both theory and practice, 6% students considered theory as more important, and 8% considered practice as more important.

For the research of the teaching methods’ importance, a 5-point importance scale was used. Teaching methods which are mostly used in marketing education in analysed graduate schools are: lecture, discussion, case studies and students’ presentations. Mean scores show lectures (1.2) as the most important teaching method for student, case studies (1.9), discussion (2.4) and students’ presentations (3.1) follow. Additional open-end questions followed: Recommendations for teaching methods? What are advantages and weaknesses of lecturing and case studies?

Qualitative comments show that students value the combination of lecturing and case studies. For example, recommendations that were repeated are:

- The most is learnt from the real cases.
- Interactions among students, academics and real practitioners are necessary.
- More practical teaching; less “dry theory”.

The key advantages of lecturing from the marketing students' perspective are: theoretical knowledge, easier learning and understanding, academics’ focusing to the most essential questions, actual examples which are not presented in textbooks, something more, that cannot be found in a textbook, is always learned, the possibility of posing questions and discussions.

The key weaknesses of lecturing from the marketing students' perspective are: the passivity of students, “monologue” of academics – small opportunities for interactions, retelling of what is written in the textbook (if an academic teaches only what has been written in the textbook).

The key advantages of case studies from the marketing students' perspective are: practical knowledge and experience, learning on the specific examples, the theory is clearer with practical work, learning through practice, learning to solve problems, deeper understanding and problems solving, group exchange of views, becoming independent in research, team work (in the case of working in group – team), the encouragement of creativity etc. The key weaknesses of case studies from the marketing students' perspective are: impossibility of solutions implementation in practice; organising – in the case of working in a group, conflicts are possible; in addition, some students may be less active or even inactive compared to colleagues in the team; if they work during the lesson, often there is not enough time for solving and presenting the case study etc.

Next open-end question was – What are the characteristics of a good academic? According to the students’ opinion, the characteristics of a good marketing educator are: expertise - marketing knowledge, he transfers knowledge well, kindness, good communication with students, he motivates students to learn, calmness and composure, wittiness, dynamical lectures, availability, fairness in grading etc.

Qualitative comments additionally show how much communication with academics is important to students. For example:

- Good academics are dedicated to science and students.
- Good academics involve students during the lessons – instead of a “monologue”, lecturing is becoming a real “dialogue”.
- Good academics are always available.
- Good academics are willing to listen to students’ problems – they always have enough time for students.
- Good academics respond to e-mails quickly.
- A good academic: a friend, a good man and then a professor.

Characteristics of bad academics are: incompetence, superficiality, bad working schedule, bad atmosphere during the lectures, lack of interest for students, misunderstanding of students, bad communication, too demanding or insufficiently demanding at grading etc. Some recommendations for academics are the following:

- An academic’s goal should be to transfer knowledge and make students become interested in the subject.
- Greater involvement of students during the lectures.
- Encouraging interaction among academics and students, and among students, too.
- “A kind word opens even the iron doors”.

From the marketing students' perspective, characteristics of good textbooks are: conciseness (without unnecessary and useless information), clarity, attraction, lots of practical examples, picturesque overviews etc.

The key advantages of digital technologies in teaching and learning from the marketing students’ perspective are: the simpler attendance in online lectures, a possibility of online communications particularly with a larger number of marketing ambassadors, a quick and simple exchange of an online digital content (e.g. via the social media) with other engaged online users. Not adapting content (e.g. a lecture) to the online context is a special problem for students.

On the basis of the results of research, Figure 1 shows how marketing knowledge should not (and it happens), and how it should be created and transferred, from the marketing students' perspective. During lecturing and later during grading (students’ knowledge), integrated marketing knowledge should be in focus. Marketing actors in the process of creation and transfer of knowledge should not be only academics, but also students and practitioners. That further means that students are in the first place interested in the process of co-creation of marketing knowledge. The role of marketing educators is being redirected from teaching to student learning. Students want to know marketing theory but they also want to have the experience in marketing practice, if nothing else, at least by preparing case studies. Lecturing is not sufficient, case studies and many other teaching methods which are focused to practice, are necessary. Academics should not establish relationships with a student as with “a number (in their student’s booklets)”, but with a student as the “personality with name and surname”. That further means, that communications are not only “one-way”, they are not reduced to “monologue” – an academic (“to” student) at a lecture and a student (“to” academic) at an exam. Communications are “two-way” and the “dialogue” “with” other marketing actors is implied.

As the academics, curricula and methods should be oriented to both marketing theory and marketing practice, so the stimulating textbooks are the combination of theory and actual examples from practice. An integrated marketing content is a combination of an offline and an online marketing contents.

The bases of the process of co-creation of marketing knowledge	How it should not be - from the marketing students' perspective	How it should be - from the marketing students' perspective
Marketing knowledge	Partial marketing knowledge	Integrated marketing knowledge
Marketing actors	Only academics – „one marketing academic show“	Academics, students and practitioners
The process of creation of marketing knowledge	Creation	Co-creation
The role of marketing educators	Teaching	Student learning
Marketing theory and/or practice	Only marketing theory	Marketing theory and practice
Intelligence (of Einstein) and/or imagination (of Picasso)	Only intelligence or only imagination	Intelligence and imagination
Teaching methods	Lecturing	Lecturing, case studies and many other teaching methods
Relationships with students	Student as with “a number (in their student’s booklets)”	Student as the “personality with name and surname”
Communications	<ul style="list-style-type: none"> • „The “monologue” of an academic during a lecture • „The “monologue” of a student at an exam 	“Dialogue” – interactions
Textbooks	Only marketing theory	Actual examples from practice
Marketing content	Offline marketing content	Integrated offline and online marketing content

Figure 1: The bases of the process of co-creation of marketing knowledge from the marketing students' perspective

Marketing actors – academics, students and practitioners – take part in the process of the co-creation of the marketing knowledge of genius marketers as a combination of Einstein and Picasso (Figure 2). The holistic approach means that all marketing actors contribute to the creation and the advancement of knowledge, the understanding of marketing as a science and an art, giving equal significance to marketing theory and practice, intelligence and imagination. Work, the advancement of knowledge and the characteristics of marketing actors’ personalities lead towards having some actors differentiated as genius marketers as a combination of Einstein and Picasso.

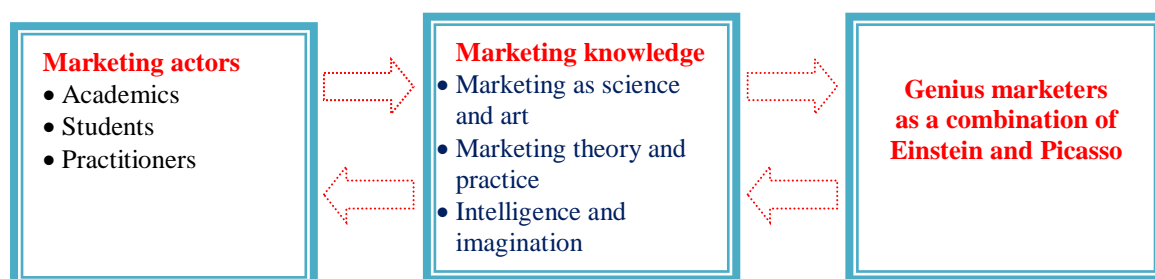


Figure 2: The process of the co-creation of the marketing knowledge of genius marketers as a combination of Einstein and Picasso

5. CONCLUSION

The context is being transformed. Marketing is being transformed as well. Actors in marketing are being faced with the challenge of transformations in marketing in the traditional, digital, co-creative and sustainability-oriented contexts. Should one stay myopic or transform marketing? Who should and how should one transform marketing in the new context? These are the questions for organizations, governments, academics and all actors in business and marketing. The solution is the dynamic marketing microchip – the mindset inside actors (Rakic and Rakic, 2017).

Genius Marketers, as a combination of Einstein and Picasso, “are not the ones who are born” but rather the ones who have been created as such. Are Genius Marketers as a combination of Einstein and Picasso led by permanent learning on the basis of marketing theory, marketing practice and digital technologies?

Marketing education in graduate schools should assure marketing knowledge and skills of students. From the marketing students' perspective the application of marketing knowledge is necessary. Marketing theory is necessary, but it is not sufficient. Marketing knowledge is acquired and transferred best by the combination of classic lectures and students' engagement in solving examples from practice. For the relations of academics and students, the key words are communication and interaction. Instead of a “monologue” of an academic at lecture, “dialogue” – interactions are necessary. Marketing knowledge from the students' perspective does not only imply acquiring knowledge and skills, but also an adequate behaviour of academics in the process of co-creation of knowledge. A student wants to be considered as a “personality with name and surname”, and not as a “number (of his student's booklet)”.

In brief, “ideal” teaching methods and textbooks are a compound of marketing theory and actual examples from practice. It requires a constant update of examples and relationships with practitioners. “Ideal” academics, besides marketing knowledge (which is implied), have time and energy for online and offline communications with students.

Starting from marketing students' views about how marketing should be taught, graduate schools can:

- make and implement contemporary curricula and teaching methods that enable acquiring theoretical and practical knowledge;
- have their own business, institutes, conduct research assignments for needs of other organizations, be engaged in consulting, etc.;
- establish and maintain communications with other organizations in which students can acquire additional - practical knowledge;
- educate employees in organizations (e.g. through seminars, creative workshops, etc.);
- and in the previously mentioned ways allow their students to solve actual case studies of organizations from different activities.

In order to define and implement innovative curricula and methods the following is needed: leaders (rectors, pro-rectors, deans, pro-deans, academics etc.) with a vision, who have knowledge, power and want to direct academics, students and practitioners; Genius marketers as a combination of Einstein and Picasso; qualified and motivated academics; hardworking and motivated students, money and time.

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ANALYSIS AND COMPARISON OF EMPLOYEE ATTITUDES TOWARDS CORPORATE EDUCATION

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ABSTRACT

The authors conducted a quantitative empirical study to analyse and compare the attitudes of employees to corporate education. In the study, motivational drivers as well as barriers to corporate education were identified, attitudes toward the selected forms and methods of corporate education and practical implementation of learning outcomes into the practice were analysed. The main purpose of the study is to show how the factors of education depend on gender, educational attainment, and private and public sector. In addition, the study attempted to provide a description of the delineated problem areas. A questionnaire was used to gather the data required. The data were statistically processed and tabularized in absolute and relative numbers. Null hypotheses were set up and chi-square tested. The subjects of research were 68 employees working in both private and public sector. No generalization was made due to the size of the survey sample. The survey results, however, are considered to be essential for further and more comprehensive studies.

Keywords: *Attitudes to Education, Corporate Education, Corporate Education Planning*

1. INTRODUCTION

In organizations, human resources are primarily developed by means of education and training. Broadly speaking, corporate education can be perceived as a lifelong education. Armstrong (2007, p. 531) noted that "the aims of corporate education are becoming more and more focused on employee personal development, increasing employee satisfaction and competitiveness within the company as well as on the external labor market. Thus, corporate education is considered to be a part of the fringe benefits serving to satisfy the needs of both an organization and employees." The most effective employee education is a well organized and systematic education. Koubek (2011) characterizes effective education as "a continuously repeating cycle based on the educational policy of an enterprise, pursuing the objectives of corporate strategy of education and relying on carefully developed organizational and institutional conditions of education. Having systematic education in place facilitates problem-solving related to personnel planning, such as for instance using internal sources of recruitment when vacancies arise. Systematic education is also instrumental in recruitment and selection. When companies have effective educational systems, they can hire employees who are not fully qualified and train them.

2. CORPORATE EDUCATION

Education is a process under which individuals learn a set of knowledge and activities that are internally processed into knowing, skills and habits (Veteška, Tureckiová 2008). Employee education, learning and development should not only be viewed in terms of costs but mainly in terms of investment in business development through employee development. "Supporting employee development and personal growth contribute to improving the production quality, streamlining of internal processes and developing an enterprise as a whole. Thus, corporate

education is becoming a crucial factor in increasing competitiveness on the markets of today". (Vodák, Kucharčíková 2011, p. 85)

Education can "guarantee that employees have the right knowledge and skills needed to perform their work now as well as in the future. Through education, employee knowledge in line with the technical and technological advances is upgraded and employee commitment and engagement are increased" (Koubek 2015, p. 139). In principle, employee education and development can be broken down into the following areas (Czikk, Čepelová, 2006, p. 20):

A. Education to adapt employees to job requirements, in particular:

- orientation of new employees, efforts to shorten and facilitate their adaptation in the workplace by providing them with all the relevant information, including specific knowledge and skills needed to perform the work they were hired for,
- continuous technical training in the employee respective field, adapting employees to meet new requirements linked to technology and market changes, discoveries, etc.
- retraining aimed to acquire new expertise, new job-related competences.

B. Development-related activities that are aimed at acquiring deeper knowledge and better skills, attention is paid to building social skills and developing emotional intelligence. Such activities are focused more on the future career advancement of employees.

Similarly, Bartoňková (2007, p. 14) distinguishes the following categories of corporate education: adaptation and orientation processes, employee job-related further training, partial or full retraining, re-entry programs for employees whose health condition prevents them from performing their jobs on a permanent or long-term basis, and qualification improvement programs. Education is deemed to be successful when the learning outcomes are applied in practice as soon as possible.

2.1. Corporate education planning

Employee education starts with identification and analysis of needs. Education and learning should address developmental needs of organizations, i.e. prepare employees to be ready to handle challenging tasks. Vojtovič et al. (2013, p.81) argue that "the planning of learning activities starts with specifying the skills and knowledge that employees are to learn, what abilities are to be developed and what attitudes are to be altered". Information on the needs can be obtained through questionnaires, polls, individual or group interviews, etc. Following such information, problems, causes and benefits of education can be identified. In problem identification, underperformance of tasks is identified. Problems related to work performance can be categorized as environment-related problems, problems associated with knowledge, skills, abilities and attitudes, and problems resulting from mental or physical incapacity of employees (Matulčíková and Matulčík (2003).

In order to identify the benefits of education, gains and losses are to be specified. The main objective of education is to increase the performance of individuals, teams and the entire enterprise. Therefore, the activities of education and learning are to be a pre-planned and meaningful investment. Employee education planning will align employee qualification structures with the objectives and goals of an organization. Under the employee education planning, the areas of education, number of employees to participate in learning activities, timing of learning activities, learning methods, and funds allocated for learning programs are to be identified. Employee education planning is directed to developing a project of education, including its title, learning activity description, target group characteristics, learning activity objectives, curriculum, assessment methods, completion conditions, technical and other resources, etc. (Prusáková, 2000). The key elements to planning and projecting education and learning include specification of target groups, learning objectives, learning content and selection of instructors and organization (Matulčíková, Matulčík, 2003, p. 72). New knowledge,

skills, work habits and attitudes are a prerequisite for a successful implementation of organizational change, be it gradual or transformational one. Tureckiová (2004, p. 92) maintains that required are the willingness (motivation) to make efforts and acquire new knowledge or skills; ability to master new procedures through new knowledge and skills that are vital for successful implementation of a change; possibility to attend corporate education programs and apply new forms of behaviour in work-related activities.

3. PURPOSE AND METHOD

Based on the aforementioned, four areas related to corporate education were examined, such as motivational drivers to corporate education; barriers to corporate education; analysis of attitudes towards forms and methods of education; implementation of learning outcomes into the corporate practice and its analysis. The main purpose of the study was to show how the factors of education depend on gender, educational attainment, and private and public sector. In addition, the study attempted to provide a description of the delineated problem areas. Five null hypotheses were formulated, such as:

1. There is no correlation between barriers to education and gender.
2. There is no correlation between the preference of respondents regarding the forms of education and gender.
3. There is no relationship between teaching methods and educational attainment of respondents.
4. Newly acquired knowledge and skills are used in practice irrespective of the type of sector.
5. Employer attitude to corporate education does not change with the type of sector.

The questionnaire method was used to confirm or refute the hypotheses. Some of the research questions were formulated as follows:

- What barriers are there to your education?
- What teaching methods do you prefer?
- Which teaching method do you think is the most effective?
- Do you apply the knowledge that you have learnt in practice?
- What is the attitude of your employer towards corporate education?

To identify dependencies, Statgraphics software program was used and chi-square tests were conducted. The research sample consisted of 68 respondents, 36 women (53%) and 32 men (47%). In the available survey sample, 58.8% employees worked in the private sector and 41.2% were employed in the public sector. The small sample size was the reason for not generalizing the findings to the population.

4. RESEARCH RESULTS

First, dependency between barriers to corporate education and gender was examined. It was formulated as a null hypothesis due to current changing social roles of men and women. The results show that both women and men indicated that there exist other barriers to corporate education (Table 1). Other barriers most frequently included the lack of financial resources. 28% of women do not participate in education programs for their work schedules, 17% see no barriers to education and only 14% do not participate in education activities for time constraints caused by family commitments. Regarding men, 25% said that family commitments hinder them in participating in education programs, 22% of male respondents see no barriers to their education and 22% of male respondents regarded work commitments as barriers to education.

Table 1: Barriers to corporate education by gender (authors)

Gender / Barriers to education	No	Work	Family	Other	Total
Women	6	10	5	15	36
	17%	28%	14%	42%	100%
Men	7	7	8	10	32
	22%	22%	25%	31%	100%
Total	13	17	13	25	68
	19%	25%	19%	37%	100%

Table 2: Chi-square test – Barriers to corporate education and gender (authors)

Chi-Square	Df	P-Value	
5.13	4	0.2746	Warning: somecellcounts< 5.

Having performed a chi-square test, the p-value of 0.2746 was calculated (Table 2). When the p-value is larger than 0.05, the H₀ is accepted. The results from the chi-square test showed that there was no relationship between barriers to education and gender of respondents.

In the following question, preferred forms of education in relation to gender of respondents were examined. Table 3 shows the research findings in absolute and relative values. Majority of women (53%) prefer group education, whereas 56% of men give priority to individual education.

Table 3: Preferred forms of corporate education by gender (authors)

Gender / Form of education	Individual	Group	Total
Women	17	19	36
	47%	53%	100%
Men	18	14	32
	56%	44%	100%
Total	35	33	68
	51%	49%	100%

Table 4: Chi-square test – Preferred forms of corporate education and gender (authors)

Chi-Square	Df	P-Value	
0.55	1	0.4572	Warning: somecellcounts< 5.
0.25	1	0.6168	With Yates' correction

As the p-value is higher than 0.05 (Table 4), H₀ is accepted – there is no relationship between the preferred forms of education and gender of respondents.

Next, the dependence of the preferred forms of corporate education and employee educational attainment was examined. This was formulated as null hypothesis. The results are shown in Table 5. Table 6 shows the results of null hypothesis verification. There was no respondent

having an elementary education. There was one respondent having secondary education without school leaving examinations. The respondent gives preference to case studies. 18 respondents had full secondary education. The majority of respondents having full secondary education prefer lectures (50%), 33% give preference to case studies and 6% prefer working with text.

Table 5: Preference of learning methods by educational attainment (authors)

Educational attainment / Learning methods	Working with text	Lectures	Case studies	Role playing	Brainstorming	Other	Total
Elementary	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	100%
Secondary without school leaving examinations	0	0	1	0	0	0	1
	0%	0%	100%	0%	0%	0%	100%
Full secondary	1	9	6	0	0	2	18
	6%	50%	33%	0%	0%	11%	100%
Higher education	4	5	20	0	5	15	49
	8%	10%	41%	0%	10%	31%	100%
Total	5	14	27	0	5	17	68
	7%	21%	40%	0%	7%	25%	100%

41% of respondents having a degree give preference to case studies, 31% of respondents choose their learning method according to the type of testing, and 10% of respondents each give preference to lectures and brainstorming. Drama techniques and role playing were not chosen by any respondents.

Table 6: Chi-Square Test – Preference of learning methods by educational attainment (authors)

Chi-Square	Df	P-Value	
15.84	8	0.0447	Warning: some cell counts < 5.

Having performed a chi-square test, the p-value of 0.0447 was found, which is lower than 0.05 (Table 6). H₀ is refuted, H₁ is supported. We can conclude with a 95% confidence that the preferred learning method is dependent on the educational attainment of respondents.

The following question was to identify employer-provided conditions for employee learning by sector. 80% of respondents working in private sector said that their employers support but do not insist on participating in employee learning activities. 18% of respondents working in private sector must educate themselves as their employers insist on learning. Only one (3%) private sector employer does not support employee education (cf. Table 7). In public sector, 68% of respondents are supported, but not forced to take part in education. 18% of respondents are obliged to educate themselves and no education programs are provided for 4 respondents (14%).

Table 7: Employer attitudes to corporate education by sector (authors)

Sector / Employer attitudes to corporate education	Employer insists on further employee education	Employer supports, but does not insist on employee further education	Employer does not support employee further education	Total
Private sector	7	32	1	40
	18%	80%	3%	100%
Public sector	5	19	4	28
	18%	68%	14%	100%
Total	12	51	5	68
	18%	75%	7%	100%

Table 8: Chi-Square Test – Attitudes of employers towards corporate education and sector (authors)

Chi-Square	Df	P-Value	
3.44	2	0.1794	Warning: some cell counts < 5.

Having performed a chi-square test, the p-value of 0.1794 was computed (Table 8). As the p-value is higher than 0.05, H₀ is accepted – there is no relationship between attitudes of employers towards corporate education and sector.

The last question was to find whether the knowledge acquired through learning is applied in practice. It was assumed that the application of knowledge is not dependent on sector. As shown (Table 9), 95% of private-sector employees apply the knowledge acquired through corporate education in practice. In public sector, newly acquired knowledge is applied in practice by 89% respondents. Newly acquired knowledge is not used in practice by 5% of private sector employees and 11% of public sector employees.

Table 9: Use of knowledge acquired through learning by sector (authors)

Sector / Use of knowledge acquired through learning	Yes	No	Total
Private sector	38	2	40
	95%	5%	100%
Public sector	25	3	28
	89%	11%	100%
Total	63	5	68
	93%	7%	100%

Table 10: Chi-Square Test – Use of knowledge acquired through learning and sector (authors)

Chi-Square	Df	P-Value	
0.79	1	0.3743	Warning: some cell counts < 5.
0.17	1	0.6770	With Yates' correction)

Having performed a chi-square test, the p-value higher than 0.05 was computed, therefore H₀ is accepted – there is no relationship between the use of knowledge acquired through learning and sector.

4. CONSLUSION

In the present quantitative study, employee attitudes towards corporate education and its implementation were examined using an available sample. Research items were selected with regard to the needs of corporate education planning in the following three areas: motivational drivers to corporate education; employer attitudes; educational methods and implementation of learning outcomes into practice. The following null hypotheses were formulated:

1. There is no correlation between barriers to education and gender.
2. There is no correlation between the preference of respondents regarding the forms of education and gender.
3. There is no relationship between teaching methods and educational attainment of respondents.
4. Newly acquired knowledge and skills are used in practice irrespective of the type of sector.
5. Employer attitude to corporate education does not change with the type of sector.

The research findings are the following:

H₀: Barriers to education do not depend on gender.

H₀: The preference of forms of education is not gender-specific.

H₁: The preferred method of education is not dependent on employee educational attainment.

H₀: Newly acquired knowledge and skills are used in practice irrespective of the type of sector

H₀: Employer attitude to corporate education does not change with the type of sector.

In the areas of gender and sector (public, private) in which respondents are employed, no statistically significant differences were found in employee attitudes and assessment. A significant criterion was found to be the educational attainment of respondents in relation to the choice of educational methods. These findings are confirmed by other studies, for instance Birknerová (2014) argues that high statistical relevance was confirmed with regard to education and self-learning and self-development of respondents. In addition, significant correlations between education and its effects on employees were identified, such as advantages of further education and practical use of acquired knowledge. Corporate education also includes educational activities required by law and vocational training activities required for employee job performance. Employee education is regulated by § 153 according to which employers shall attend to deepening or increasing employees' qualifications. Employee education is a certain type of care provided by employers to employees for the benefit of both parties. The research findings by Kešelová (2012) show that 86.4% of employers organized at least in one year employee educational activities over 2008 – 2010. In 2010, more than 90% of educational activities performed were required by law. Other options include development activities. In 2010, more than 80% of employers also organized professional skill-development activities. 57% of educational activities focused on improving general knowledge and skills. Less than 10% of employers provided educational activities to maintain jobs and prevent collective consultation. The issue of educational activities should be discussed with employees in assessment interviews. Based on the company needs and requirements, educational activities can be set in quarterly or annual assesments. The research findings indicate that educational attainment is important at the stage of education planning as it affects the choice of educational methods.

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ICT TECHNOLOGIES IN SOCIAL ISSUES SUPPORT - AN EVIDENCE FROM SERBIA

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ABSTRACT

Better leveraging of the potential generally provided by ICT for independent living in an ageing society represents today, both a social necessity and an economic opportunity. As the usage of ICT for ageing well in the information society is still in its nascent phase, and does not yet fully ensure the availability and take-up of the necessary ICT-enabled solutions, the research presented in this paper would like to support social care activities of old generation with ICT-enabled solutions. The objective of this research is to study the satisfaction of learning and the learning outcomes of the cognitive training of older people using ICT technologies in an individual development for capabilities efficacy. The target group of this research was 90 aged people older than 65, having been chosen for individual development of capabilities efficacy training at Stari Grad Municipality's Social Protection Department, Belgrade, Serbia in 2016. The data was collected by using the questionnaire asking about the personal information, learning satisfaction on the content (attention, memory, executive functions, logical reasoning, orientation, language, constructive practice, robotic functions (using new ICT technology tools- touching screen and ICT technologies hardware and software instruments. The data analysis was done by using a statistical program consisted of percentage, mean, standard deviation, Pearson's Product Moment Correlation Coefficient and Multiple Regression Analysis. The finding showed that the older populations' satisfaction towards the learning was in the highest level. There were the positive relationships between the learning satisfaction and the learning outcomes. The main contribution of the research realized and presented in the paper is very high satisfaction of the older population with ICT technologies and communication tools introduces and used in the training, as well as and their wish to continue the communication with computer, usage of various software and means in their future life.

Keywords:*Elder people: ICT technologies, IT learning, Aged population, Cognitive functions*

1. INTRODUCTION

Accepting that ICT impact research towards development may be undertaken in many ways, there are also several conceptual frameworks found in both the academic and practitioner literature. An extensive examination of the empirical research literature in the field of ATs and ICTs as they relate to older adults and ageing populations suggests that, digital-age tools (ICTs)

with Assistive Technologies have been proposed as possible resources to improve outcomes in welfare sector improving quality of life, extend length of community residence, physical and mental health status of elder people, delay the onset of serious health problems and reduce family and care-giver burden. The discussion on demographic changes and its consequences has lead new technologies promoters implantation in various fields of life and science to focus on senior citizens more, as the percentage of older people within the total population will rise considerably with concerns about resources, demands on health provision and pensions.

This paper can be concerned as a support to active citizenship of senior citizens which has been gained in many European countries. This is quite astonishing considering the demographic development that sees an increase of the percentage of older people within the total population. There is an amazing potential of willingness to get engaged in active private and public life maximizing the value, productivity and experience of old age by integrating their skills into society is the magic formula for a productive managing of these demographic changes.

Learning ability and engagement don't come to an end at the age of fifty, because of what this paper written using: literature review, database analysis, a questionnaire survey and statistical data analysis, with the result of a set of interviews with elder people from City Municipality "Stari grad" in Belgrade, Serbia, with the oldest population is an effort of positive impact study of cognitive functions support by IT technologies and elder people prospective productivity and a paradigm shift.

2. LITERATURE OVERIEW

Considerable literature has appeared suggesting that in both, the academic and practitioner literature, the key challenges identified and conceptual frameworks indicating number of social and economic fields of ICT technologies usage. Current challenges of ICT impact research, according to Ashraf (Ashraf et al., 2010) can be illustrated in works of further authors through some of these challenges and frameworks:

- **Challenge seen in UN studies (2005)**, Techno – centric approach (little focus on societal perspective), with ICT diffusion index at the national level as a framework (Indicators are. connectivity, access and policy);
- **Challenge mentioned in ITU studies (2006)**, Unfocused local agenda addressing MDG/UN, with Inputs-Outputs-Outcomes, model as a framework;
- **Challenge mentioned in works of:** Madon (2003); Gigler (2004); Garai & Sahadrach (2006); (Sen, 2000), Capability approach, (Difficulty on operationalizing theory), with assessing impact of ICT in human development in rural areas as framework;
- **Challenge mentioned in UNDP Initiative (2006, and Hams (2005)**, Top-down prescribed understanding of development (does not reflect users/actual demands) , with Evaluation of telecasters in rural areas/ICT and gender initiatives as an framework;
- **Challenge mentioned in UNESCO studies** cited in Orbicom (2005); IRRC cited in Gigler (2004), CIDA cited in UNESCO (2005); UK Department for International Development (DFID) cited in IDRC (1993); Inadequate field testing, (heavily depends on local agencies reports based on secondary data and short term success stories only), with ICT impact assessment research in evaluating community centers, as framework.

This are some impact research undertaken also in a social field, with the aging population as a subject of the research, which is even going to be more interesting for such studies in future.

These ICT innovative technologies aim to unlock the potential of ICT to improve the quality of life for older, poor, often rural, people. However, there remains a clear need to demonstrate that such an impact on social development can be expected to arise (pre-hoc planning), or has arisen (post-hoc evaluation), in the micro communities, as municipalities, (Mbarika, Okoli, Byrd & Datta 2005; Meso, Datta & Mbarika 2006).

Other respective authors, (Sahay & Avgerou 2002; Mbarika et al. 2005). Heeks (2005) argue that interventions need to be associated with local data content and local ICT skills. In the past, emphasis has been placed on the supply side (for example, infrastructure building) rather than the demand side (for example, users' willingness and capacity to acquire/use services) (Ashraf, Hanisch & Swatman 2007; Heeks 2002)

Very important support to the research in this field has been given by Blaschke, C. M., Fredolino, P., Mullen, E (2009) in their work: Ageing and Technology: A Review of the Research Literature British Journal of Social Work. Also, of the importance is the work: On the Edge of a New Frontier: Is Gerontological Social Work in the UK Ready to Meet Twenty-First-Century Challenges.

3. RESEARCH

3.1. Hypothesis

There are two groups of hypothesis which are the matter or the research, whose checking is determined by the degree of satisfaction of participants / respondents, i.e. positive impact of IT in the development and acquisition of new knowledge and skills of researched sample of elder people, in the range of 1 to 5, (interpretation given below).

The first group of hypothesis A, relate to the satisfaction of respondents with the content of IT training, as follows:

- A1. Older people are generally satisfied with the content of IT training.
- A2. IT positively influences the development function of attention.
- A3. IT positively influences the development of memory function.
- A4. IT positively influences the development of language function.
- A5. IT positively influences the development of logical reasoning functions.
- A6. IT positively influences the orientation.
- A7. IT positively influences the development of robotic function.
- A8. IT positively influences the development of executive functions.

Hypothesis of the group B, refer to the satisfaction of the participants with the results of IT training, in the following respects:

- B1. Participants were generally satisfied with the results of the training using IT .
- B1. IT technologies encourage the improvement of the moral and ethical aspects of participants.
- B2. The use of information technology promotes cognitive abilities of older.
- B3. The use of information technology promotes accountability.
- B5. The use of IT supports improvement of numerical and analytical skills.
- B6. The use of IT support improvement of computer skills and use of new information technologies

3.2. Methodology

The paper checks through empirical research, and (possibly) a positive impact of information technology (IT) to cognitive functions of members of the older population, i.e. persons aged over 65 years. For this purpose, is formed a random sample of 90 members of this population in the city of Belgrade (from 65 +), which are subjected to different training methods, in order to acquire the appropriate skills and knowledge using the new tools of information technologies. Respondents were then surveyed to primarily determine their level of satisfaction with the training content, methods, learned knowledge and skills. The survey found a total of 26 survey questions closed form, with only one (last) open question. All survey questions, indicated by symbols Q1-Q27, in terms of their structure are divided into the following groups:

- 8. Issues related to trained participants (Q1-Q5) relate to gender, property and health status, age and education of the respondents. In this way, based on these characteristics of the subjects in the sample can be easily classified and be observed the very structure of the selected sample (see Table 1 in the following section).
- 12. Issues related to the satisfaction of computer learning (Q6-Q18) show user satisfaction / respondents in every aspect of training: the first three issues of this group relating to the content of the training; the second group of questions shows the level of satisfaction of respondents in the seven categories of cognitive practices: attention, memory, executive functions, logical reasoning, orientation, language, constructive practice, and robotic functions for the randomization of the users-clients. For all survey questions the group level of satisfaction is expressed by ranking the five levels:
 - 1. Extremely satisfied
 - 2. Very satisfied
 - 3. Partially Satisfied
 - 4. Satisfied
 - 5. Dissatisfied

Matters relating to the satisfaction with the results of training indicate that the greater part of older questioned population was able to express their level of satisfaction connecting it with the learning outcomes- results of training appropriate to the issues related to:

- moral and ethical issues;
- improvement of cognitive skills;
- responsibility;
- promotion interpersonal relationships;
- improvement of numerical and analytical skills;
- improving computer skills and use of new IT tools;

All of answers to these questions are ranked and scaled in the same way as in the previous group of survey questions. Based on the above stated hypothesis, it is clear that respondents' answers related to their level of satisfaction with the content and results of training, are of particular importance in our study. All of the answers are structured so, that they can be quantitatively expressed in numerical values, ie., ranging from 1 to 5. In this case, in terms of their qualitative interpretation further statistical methods were used and divided into three groups:

- *The basic descriptive statistical analysis of the observed data.* In this regard, the next part of our research, are determined the dominant characteristics of the observed sample, primarily calculating the corresponding frequency responses of individuals as absolute and relevant (percentage), being possible to determine the basic statistical parameters, the mean and standard deviation for each of the stated hypothesis, that the poll question in the questionnaire.

The second group of used statistical methods is: statistical testing, depending on the individual variables of the sample, where we use the well-known Pearson's χ^2 (Eng. Chi-Square) test of independence of certain characteristics of the sample set. A number of test procedures are based on the so-called - Pearson's – statistics, and includes the oldest methods of statistical inference. Here, we use the first test in the statistical analysis of the structure of the sample (Q1-Q5 questions), and then in determining the (non) dependencies between the remaining individual responses within the observed sample. In the third group of statistical methods used is a precise determination of the degree and mode of association (correlation) of individual respondents' answers. For this purpose we use - Pearson's correlation coefficient (Eng. Pearson's Product Moment Correlation Coefficient). In addition, for a formal review of all the above hypothesis we use the model of multiple regression analysis (Eng. Multiple Regression Analysis) to describe a connection between one output (dependent) and two or more input (independent) variables. In this way, one can construct the corresponding multidimensional regression model that is best adapted to the given data. It then presents a cost-effective, acceptable model that describes the relationship between a set of independent variables which affect the ultimate value of output, dependent variable.

3.3. Key Findings

In this section we describe the basic quantitative indicators of the structure of the observed sample. All indicators can be interpreted as the realizations of six attributive variables: Sex, Financial status, Age, Education, Knowledge of English, and Health status. These variables indicate the personal characteristics of the respondents that enrolled in the Individual Development Efficacy by using IT-course, and it could be seen from the Table 1.

Table 1: Demographic structure of the personal characteristics of the respondents

Items	Number	Percentage	X ² -statistics (p-value)
<u>Sex</u>			
Male	6	6.67	67.60**
Female	84	83.33	(2.00E-16)
<u>Financial status</u>			
Pensioner	60	66.67	10.00**
Dependent	30	33.33	(1.56E-3)
<u>Age</u>			
65-70	24	26.67	
71-75	24	26.67	7.60
76-80	30	33.33	(0.0550)
80+	12	13.33	
<u>Education</u>			
Primary School	24	26.67	
High School	24	26.67	20.40**
Vocational	6	6.67	(1.40E-4)
Faculty	36	40.00	
<u>Knowledge of English</u>			
Yes	42	46.67	0.40
Now	48	53.33	(0.9402)
<u>Health status</u>			
Diseases	48	53.33	27.78**
Disability	12	13.33	(4.047E-6)
Both of them	30	33.33	

* $p < 0.05$, ** $p < 0.01$

The first column in the Table 1 shows the attributive modalities for each variable. Then, in the following two columns it could be seen the appropriate values of the absolute and relative (percentage) frequencies. Finally, the last column of Table 1 contains the appropriate values of Pearson's Chi-Square statistics, along with the corresponding p-values. These values indicate the significance of differences between the values of the modalities of the same attributive variable. According to obtained values, the majority of the surveyed respondents are females. The total of them is 84, which equals 83.33% of the sample. The male group consists only of 6 persons, which equals 6.67% of the sample. In the sense of the financial status of respondents, the pensioners represent exactly two thirds of the sample, while the others, one thirds of the sample, are dependents. The variable who indicates the age of the respondents contains 4 different levels. In this case, frequencies of respondents show the relative uniformity, which

was confirmed by the relative low value of the chi-squared statistics ($\chi^2=7.60$). The following variable describes the level of education of the respondents.

Them the most, a total of 36, have a college education, while only six have vocational education. Therefore, unlike the previous variable, the levels of the education degree do not have the high uniformity. The highest degree of uniformity exists in the case of knowledge of English, where the Pearson's chi-squared statistics has the lowest value ($\chi^2=0.40$). Precisely, 42 respondents, i.e. 46.67% of the sample, said that they know English, in contrast to 48 of them (53.33% of the sample) who do not know. Finally, the last variable in this group, with the three attributive levels indicates the health status of respondents.

3.3.1. The relationship between IT training satisfaction, and training outcomes

It is analyzed the relationship between the training satisfaction levels related to the satisfaction levels of the training outcomes. Table 2 illustrated that the overall, in the most cases, training satisfaction levels are positively related to training outcomes, with the statistical significance of .001. When considering the satisfaction of each aspect of the course, it is found that the satisfaction of the training content are positively related to the all training outcomes in five levels (attention, memory, orientation, logical reasoning and executive functions). It is interesting that four of these five levels (attention, memory, orientation and executive functions) are correlated the most with the same level of training outcomes: the numerical and analytical skills. Pearson's product moment correlation coefficients for these five relationships are: $r = 0.927$, $r = 0.618$, $r = 0.853$ and $r = 0.829$, respectively. Then, followed by the correlation between the logical reasoning with the computer and IT skills ($r = 0.702$). Finally, the other three levels (language, constructive practice and robotic function) are low correlated with all the training outcomes, because all the Pearson's correlation coefficients are, in the absolute values, less than 0.5.

Table 2: Correlation coefficients between satisfaction in IT-training and training outcomes

Items/ Satisfaction levels	Moral & ethics	Knowledge acquisition	Cognitive skills	Responsibilities	Communication & interpersonal skills	Numerical & analytical skills	Computer & IT skills
<u>Satisfaction with the IT training contents</u>							
Attention	0.456	0.080	0.577	0.167	0.080	0.927	0.563
Memory	0.362	0.608	0.189	0.480	0.291	0.618	0.311
Language	0.123	-0.237	0.076	0.123	0.207	0.211	0.410
Orientation	0.289	0.139	0.200	0.289	0.277	0.853	0.657
Logical reasoning	0.612	0.552	0.213	0.123	0.207	0.567	0.702
Executive functions	0.177	0.059	0.107	0.612	0.294	0.829	0.093
Constructive practice	0.028	-0.277	-0.200	0.136	0.139	-0.242	-0.057
Robotic function	0.302	0.145	-0.277	-0.320	-0.139	0.426	0.131

*the significant level at 0.01

3.3.2. The predictive power of the training satisfaction of each aspect that affects training outcome

In this part of our analysis the relationships between the satisfaction levels of the IT-training and the appropriate outcomes levels, we use the *model of Multiple Regression Analysis*. Most precisely, we interpreted three aggregate categories of satisfaction levels (satisfaction of the training content, group and instructor) as the realizations of three multidimensional input variables. Similarly, all outcomes satisfaction levels can be interpreted as the components of some multidimensional output variable. However, it is common that the calculated average values of outcomes levels, resulting in a single output variable. In this way, can be formed the appropriate *Multiple Regression Model (MRM)* which is best fitted to the observed data.

For the regression coefficients calculation, which are estimated according to the data, in this paper we used the original program code written in the statistical-oriented programming language "R". Implementation of these software procedures allows so called *glm*-function in-Stats package. According to the estimated values of the regression coefficients, we are able to determine and quantify the quality of the obtained regression relationships, i.e. degree of agreement the obtained regression function with the empirical, observed data.

Table 3 shows that the coefficient of multiple correlation of the 8 satisfaction levels of training content, observed 8 predictor variables. In the second column of the Table 5 are given estimated values of the regression coefficient, whose represent the proportion of the certain satisfaction levels of the IT-course content. The highest estimate, equals 3.7172, corresponds to the level of logical reasoning. This is followed by memory, at 2.7235, both with 0.05 statistical significances. In the end, the only negative value of regression coefficients corresponding to the level of robotic functions.

Table 3: Multiple regression analysis of the satisfaction levels of the training content

Items	Estimate	Std. error	t-value	Pr(> t)
Intercept	0.5339	2.3050	0.232	0.8245
Attention	0.8980	0.2713	3.310	0.0162*
Memory	2.7235	0.8925	3.052	0.0225*
Language	0.5548	0.2633	2.107	0.0797
Orientation	0.0972	0.1279	0.760	0.4758
Logical reasoning	3.7172	1.2400	2.998	0.0241*
Executive functions	0.9350	0.5840	1.601	0.1605
Constructive practice	0.0786	0.1020	0.770	0.4705
Robotic function	-0.6067	0.2361	-2.570	0.0424*

Residual standard error: SEE = 0.1336 on 6 degrees of freedom

*p < 0 .05; **p <
0 .01

Multiple R-squared: $R^2 = 0.8151$, Adjusted R-squared: $R^2 \text{ adj} = 0.5686$

AIC = - 11.562

In this way, it is possible to create the predictive training outcomes using each element of satisfaction as predictor variable. The predictor equation in raw score is as followed:

- $Y_1 = 0.533 + 0.898 \text{ Attention} + 2.7325 \text{ Memory} + 0.5548 \text{ Language} + 0.0972 \text{ Orientation} + 3.7172 \text{ Logical reasoning} + 0.350 \text{ Executive functions} + 0.0786 \text{ Constructive practice} - 0.6067 \text{ Robotic function.}$

The quality of the obtained regression model can be considered based on the previously described indicators (SEE, R^2 , AIC), which are shown in the Table 5, also. It can be seen that the standard estimation error is SEE = 0.1336, while the estimated value of the coefficient of determination is $R^2 = 0.8151$. This means that make up 88.51% of contribution towards the prediction of the IT-training outcomes. Finally, the relatively small, negative value of the Aikike's coefficient (AIC = -11.562) confirms that the obtained regression model is adequate.

4. DISCUSSION AND CONCLUSIONS

The subject of this paper was to research the impact of IT new methodologies on cognitive functions of the elder people in the City Municipality, Belgrade, Serbia. The sampling group members who have been questioned upon the contents of the IT training and their satisfaction with the outcomes were first of that kind researched on their involvement and improvement of skills in Serbia.

By studying the learning outcomes, the research found that satisfaction in course content, and results can be used to explain the learning outcomes. This means that if the participants are satisfied with course content and their learning outcomes will also be higher. The factor that affects the learning outcomes the most is satisfaction of course contents, followed by evaluation, memory, computer and numerical skills. This paper with the topic researched supported further studies on active citizenship, as well on solidarity among generations, and above all the usage of IT technology tools in cognitive functions improvement of elder population (Grozdanic et al., 2013; Jevtic et al., 2014).

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ROLE OF FREE ZONES IN THE PROCESS OF RESTRUCTURING THE ECONOMY OF SERBIA AND ACHIEVED EFFECTS

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ABSTRACT

Free zones are effective economic instrument which provides the host country a quick influx of investment, increase employment, access to new technologies, education, labor, industrialization and increasing exports. In the daily struggle for investors compete around 10,000 free zones in the World and 82 free zones in Europe. Offering a variety of facilities and services of the free zone are struggling to retain existing and attract new customers. Free zones provide a bridge to the future. Flexibility is possible without necessarily changing the rules for entire nations all at once. The platform of free zones provides the most expeditious and practical way to enhance flexibly in international trade and to increase the attractiveness of more countries for productive international investment. Besides the fact that national Free zones at the moment are not competitive comparing to the best Free zones in the World, which provide better conditions for investors. The implementation of certain tax exemptions valid up to the moment of accession of Serbia will increase the attractiveness i terms of investments and increase employment. Nowadays in Serbia there are 14 free zones, which cover an area of 2.300ha where operate 260 multinationals companies and around 25.000 workers. Besides certain difficulties, in the past years Serbian Free Zones have achieved significant results in terms of increase of inflow of foreign investments, value of turnover and exports, number of employed workers comparing to the results achieved outside the territory of Serbian Free zones.

Keywords: *Economic Effects, Free Zone, Growth, Investments*

1. INTRODUCTION

Free Zone, an enclosed part of the territory of the state that provides special benefits for business. It is a mean of the economic policy that is used to create areas of rapid development. These areas support alternative economic framework in relation to the rest of the country with a positive impact on the economy of the whole country. Free zones are an instrument of economic policy that allows rapid inflow of foreign direct investment, the implementation of new technologies and increase employment, which until now, to us, was not used in an economic way. It is of utmost importance for the development of society to design successful strategies to overcome underdevelopment and the use of mechanisms that lead to economic progress. Economic development involves an increase in production, employment, exports, direct investment, technological knowledge, and finally - the successful integration into the world economy. In the context of the creation of a national strategy for economic development, restructuring the economy and reduce poverty, it was necessary to design and implement effective instruments to increase the employment of labor, and consequently, an increase in the standard of living of employees and residents.

Since the moment of the founding of the first free zones in Serbia, is raised the question whether it is possible to, by using the concept of the production free zones, significantly affect on increasing the inflow of foreign direct investment, new technology and employment of the labor force, to achieve the restructuring and rapid development of the national economy as well as specific economic projects, without significant investments of the state.

2. FREE ZONES IN SERBIA

Free zones are physically fenced and marked part of the territory of the Republic of Serbia, equipped with infrastructure, where users can carry out production or service activities with certain incentive benefits.

The competent authority which ensures the legality of free zones in accordance with the Law on Free Zones ("Official Gazette of RS", No. 62/06), it the Administration of free zones of the Republic of Serbia.

Free Zones Administration began its work in 2008 as a body within the Ministry of Finance and within its jurisdiction are all issues related to the functioning and development of free zones.

General benefits offered to users of free zones are:

- Exemption from payment of customs duties and other import duties for goods intended for operations and construction of facilities in the free zone (raw materials, equipment, building materials);
- Exemption from VAT on the entry of goods into the free zone, as well as for provision of transportation and other services related to imported goods;
- Exemption from VAT on goods and services in the free zone, as well as for the transport of goods between two users of the free zone;
- The release of production users from payment of VAT on energy consumption.

In addition to the general benefits defined by the Law on Free Zones in 2006, the free zone includes all the benefits that the state provides on the territory of Serbia as well as the benefits of a free zone agree on with local governments, which are in their jurisdictions.

For example, based on the decision of the City of Pirot on provision of low-value state aid (deminimis) for doing businesses on the territory of the city of Pirot and Free Zone Pirot, were granted special privileges to enterprises:

1. For construction of a facility:

- By the City Administration Pirot shell not be paid:
 - a. all administrative fees and local municipal taxes that are collected in the process of obtaining approval for the construction and use permits,
 - b. fee for the development of city construction land,
 - c. fee for a certificate of right of the construction priority.
- By public utility companies shell not be paid:
 - a. fee for issuing the requirements for connection to the utility infrastructure,
 - b. fee for issuing approval for connection to municipal infrastructure,
 - c. fee for connection to utility infrastructure (except for material costs).

2. For exploitation of the facility for a period of 3 years from the moment of issuance of the decision on use permit for newly constructed objects as follows:

- By the City administration of Pirot shall not be paid local utility taxes,
- By the public utility companies is paid half of the fees for municipal services according to the current price,
- 50% of property tax by Local Tax Administration of the City Administration of Pirot.

Also companies themselves for managing free zones can provide logistics services to its customers: freight forwarding services, organization of international transport, customs clearance, warehousing, land infrastructure, technical assistance with customs clearance, as well as many other services.

The first free zone on the territory of Serbia was established in 1996 in Pirot, and in April 2016, we have 14 Free Zones: "Pirot", "Zrenjanin", "Subotica", "Novi Sad", "FAS Kragujevac", "Sabac", " Uzice ", " Smederevo ", " Krusevac ", " Svilajnac ", " Apatin ", " Vlanje" Priboj "and" Beograd ".

A zone user may, in accordance with the regulations, carry out production and provide services in the zone, on condition that this does not endanger the environment, human health, material goods and security of the country. In this regard, in free zones in Serbia are located represented in various activities: automotive, metal industry, the production of tires and rubber products, the production of wind turbines, the production of copper and alloys, food production and so on.

In free zones operate about 260 small, medium and large companies, among which are vital for the economic development of the Republic of Serbia following companies: Fiat Automobili Serbia, Tigar Tires part of the Michelin Group, Panasonic, Siemens, Swarovski, Magneti Marelli, Draxlmaier, Cooper Tires, Loher , Traya, Continental and many others.

The total area covered by the free zone in Serbia in 2016 was approximately 2,300 ha. Total value of turnover of goods and services in 2015 was 4.63 billion Euros, of which imports amounted to 2.04, exports 2.12, domestic market of Serbia 0.45 and turnover value of services in free zones was 0.017 billion Euros.

Total investments in the free zones, including the investments of users and company for managing zones in 2015 were around 156 and in 2016 were about 210 million Euros.

3. INDICATORS OF OPERATIONS OF FREE ZONES IN SERBIA IN THE PREVIOUS PERIOD

Free zones have made significant progress since its establishment until today. Records of the effects of free zones begun by the establishment of the Administration of free zone since 2008 and below are shown 4 performance indicators of free zones.

In 2008 in free zones the total turnover was 0.65 while in 2016 was 4.7 billion, which represents an increase in turnover of about 7 times. The largest turnover in the zones was made in 2013. After a slight drop in turnover in 2014 and 2015, in 2016 it grew.

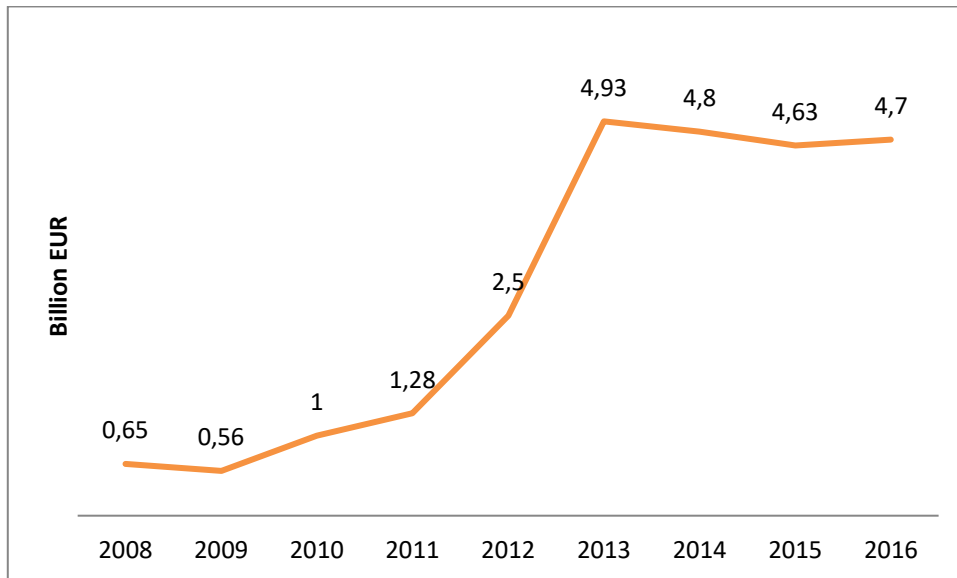


Chart 1: Total turnover in Serbian Free Zones (Report on operations of free zones in the Republic of Serbia for 2015 and internal presentation)

A similar trend of turnover was recorded in exports. Except that in 2016 exports increase around 9 times compared to 2008. After slight decline of values of export from 2013 to 2015, the export grew in 2016.

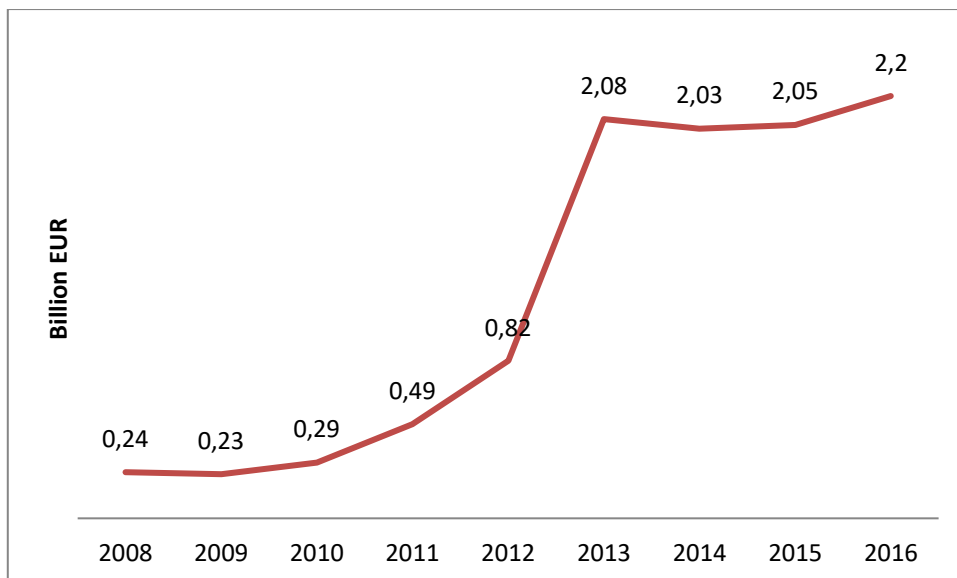


Chart 2: Total value of export in Serbian Free Zones (Report on operations of free zones in the Republic of Serbia for 2015 and internal presentation)

Free zones have attracted significant investments in the past. Since 2008 when it was registered about 37.5 million Euros of investment, and in 2016 it there was in total about 210 million of investment, an increase of 5,5 times. The biggest investment of free zone users themselves and free zone companies were realized in 2012 in the amount of 755.6 million Euros, mainly due to investment company "Fiat" and "Tigar Tires", part of the Michelin group, which contributed the largest total investments.

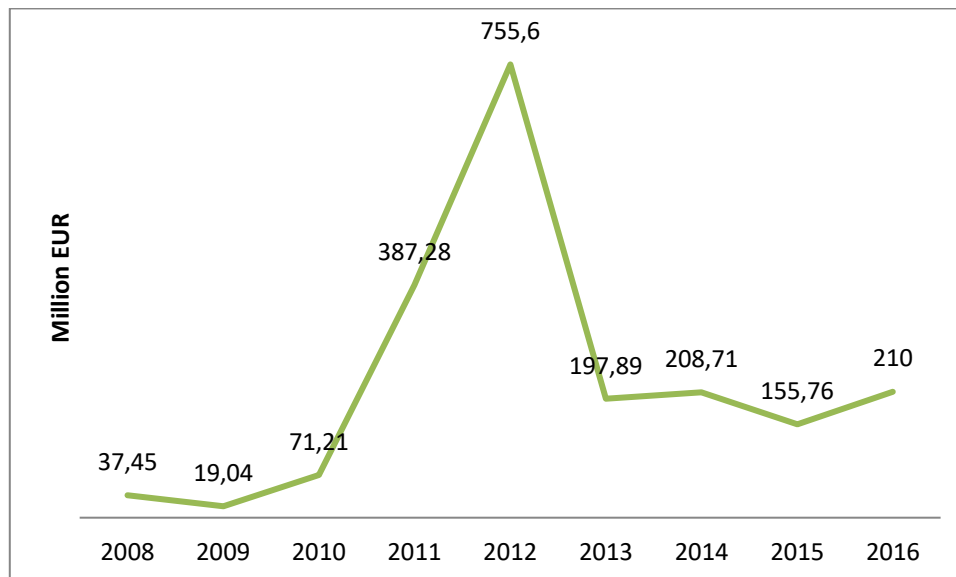


Chart 3: Total value of investments in Serbian Free Zones (Report on operations of free zones in the Republic of Serbia for 2015 and internal presentation)

Based on the report on the operations of free zones in the Republic of Serbia in 2015 and internal sources, number of employees in the free zones was constantly growing in the past, it increased 4.5 times in 2016 comparing to 2008. Today we have around 25,000 employees in all free zones.

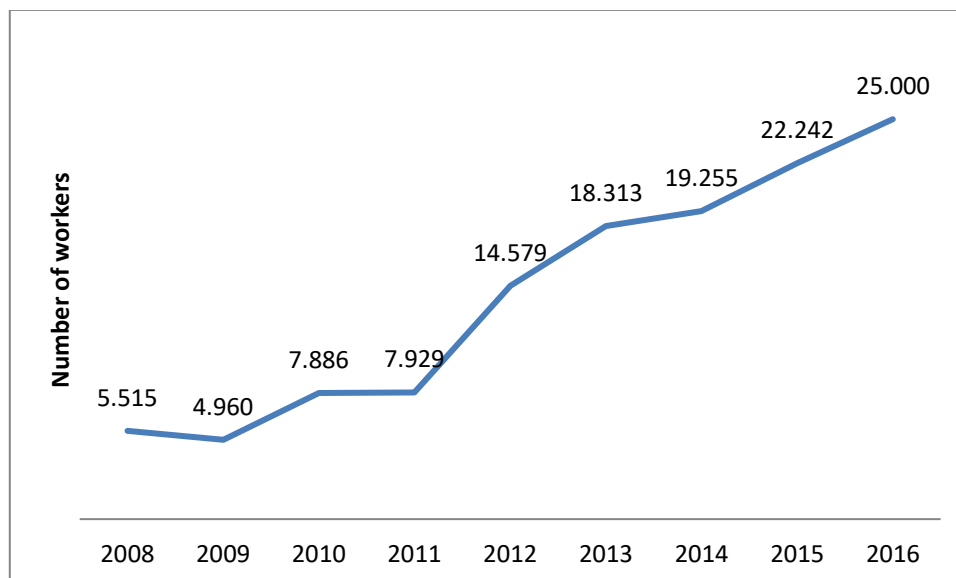


Chart 4: Total number of employees in Serbian Free Zones (Report on operations of free zones in the Republic of Serbia for 2015 and internal presentation)

This 4 indicators: turnover, exports, investments and number of employees indicate a significant contribution of free zones for economic development of the Republic of Serbia in respect of economic progress, attracting investment, reducing unemployment and others.

4. PROPOSAL OF NEW MEASURES FOR IMPROVING INCENTIVES IN FREE ZONES

Considering certain indicators of operations of free zones, in some of them is recorded a slight decrease of their values, for example turnover or investment indicators. It is necessary to take certain measures that will allow free zones to improve their operations and continue with the positive trend of growth of values of indicators.

Also, the benefits of free zones are slowly losing importance in relation to the conditions of doing business in the free zones of neighboring countries, which primarily refers to tax breaks, customs procedures, as well as the incentives of local government.

The government in March 2011 adopted a strategy of development of free zones in the Republic of Serbia for the period from 2011 to 2016 ("RS Official Gazette", No. 22/11), which represents the first strategic development document in the field of free zones which on a consistent and comprehensive way defines elementary directions of development of free zones and ways of their implementation in the coming years. One of the main reasons for the adoption of the strategy is that the former development of free zones has not met expectations.

The drafting of the development strategy for free zones for the period from 2017 to 2022 that will predict promoted concept of free zones in Serbia and includes the creation of conditions that allow creation of the most favorable economic environment, in order to meet the interests of the state, population and investors.

After analysis of successful examples of free zones in the region, especially the Special Economic Zones in Poland and the free zones in Macedonia as well as the incentives and opportunities provided by our country in the following is a proposal of measures for the realization of each strategic objective (hereinafter SC).

SC 1. Effective attraction of direct investment through a combination of government programs and financial support and incentives offered by free zones.

Measure 2. Provision of highest amount of incentives to attract FDI, which are determined in accordance with the regulations governing the rules for granting state aid:

- Financial support to investors for tangible and intangible assets to encourage investment projects or gross salary for new employees associated with investment projects in the two-year period after reaching full employment;
- Subsidies by National Employment Service, which includes a program of subsidies for employment, internship program, and a program of retraining;
- Temporary tax exemption on corporate income;
- Transfer of losses. The tax loss stated in the tax return can be transferred to and compensate for future profits over a period of 5 years;
- Reduced load on earnings;
- The annual deductible for income tax - the citizens who are not citizens of Serbia, the annual income is taxed if exceeding the amount of three times the average annual salary in Serbia. The tax rate is 10% for an annual income of up to 6 average annual salary in Serbia, and 15% of the annual revenues that exceed 6 times the average annual salary in Serbia. The taxable income is further reduced to 40% of the average annual salary for the taxpayer and 15% of the average annual salary for each dependent family member. The total amount of deductions can not exceed 50% of taxable income;

- Avoidance of double taxation;
- Duty-free imports of raw materials and semi-finished products;
- Duty-free import of machinery and equipment;
- Local incentives;
- Free trade agreement (Russia, CEFTA, Turkey).

In addition to government programs to attract investment, it is necessary to provide benefits for business operations of user of free zones:

- Financial - directly provided by the State, such as credits or investment incentive allowances;
- fiscal - Exemption from tax burdens for foreign direct investment;
- indirect - providing land and infrastructure at prices more favorable than the market.

SC 2. Improving the policy of tax incentives in free zones in accordance with the state policy of regional development.

Measure 2. It is necessary to consider changes to systematic laws that give extra tax incentives for users of the free zone which are engaged in manufacturing activity.

One of the proposals is to reduce the corporate income tax in free zones and enable lower rate of income tax for users in free zones that are located in areas the 4th and 5th development group based on the Law on Regional Development of the Republic of Serbia, to reduce income tax by 5% for the 4th group and 10% for 5th development group (devastated areas).

SC 3. Expansion of existing areas of free zones especially in devastated areas

Measure 3. To encourage the development of less developed and devastated areas it is foreseen the extension of existing zones as generators of economic development in these areas in order to facilitate attracting investors and creating new jobs.

SC 4. Encouraging of investing in new technologies.

Measure 4. For existing and potential users of free zones is necessary to ensure appropriate conditions and incentives for investing in new technologies.

Users of free zones, for production activities and activities related to information technology (software development, hardware assembly, digital recording, computer chips, etc.), scientific research and production based on new technologies with high environmental standards, should enable additional financial, fiscal and customs incentives.

SC 5. Construction of buildings intended for incubation of production activities.

Measure 5. It is necessary to provide in the coming period "Brownfield" buildings for new investors because:

- Many investors who come to Serbia, want to start as soon as possible production activities and for this purpose they need equipped facilities for production activities.
- Some investors want to test the investment locations before they start to invest in its objects and start working at full capacity.

- Also, many investors want to profit from the incubator, on the other hand build their own facilities and thus reduce the cost of investment.

Deadline of incubation need not be limited to any possible greater number of investors to incubate their activities.

SC 6. Infrastructural equipping of land intended for the incubation of production activities.

Measure 6. To encourage the development of less developed areas, it is necessary to ensure support from the state in terms of commitment of assets of local governments to build the business infrastructure in the areas of development of 3rd, 4th category and devastated areas, of law on regional development.

SC 7. Increase the role of local governments through a system of municipal benefits

Measure 7. Ensure maximum support of local government by new investments in the free zones and provide special benefits for:

- Construction,
- exploitation of new buildings,
- increase in the number of newly employed workers in the undertaking.

which can be realized by state aid of small value (de minimis).

SC 8. Encourage the introduction of new services in free zones for existing and future users.

Measure 8. It is necessary to provide new services related primarily to the implementation of electronic document management system that will allow quick and easy: provision of work permits, company registration, visas for work, the application form for new jobs; electronic checking of passes and parking reservations; consular contacts; connection with certain institutions in the country and another.

SC 9. Encouraging small businesses and individuals to establish cooperation with large companies in order to supply them with their products and services.

Measure 9. In order to improve cooperation and integration of local companies in the supply chain of large companies operating in the country it is necessary to support development programs primarily for domestic suppliers and to encourage their cooperation. Similar to programs in an „environment“ which are funded by the European Union and the World Bank in cooperation with the governments of countries, improve conditions for the implementation of similar programs in free zones.

Take part in the pilot program for the development of suppliers for large companies and support their implementation through the following components, and within own capabilities:

- Collection and dissemination of information about the products and capabilities of local suppliers;
- Strengthening the capacity of institutions;
- Improving the capacity of potential suppliers in terms of technological readiness;
- Facilitate access to finance.

To participate in the formation of an Action Plan for cooperation with the Council of investors in the Republic of Serbia in order to identify local companies whose products meet the standards of investors.

SC 10. To ensure the best conditions for doing business in free zones, after joining the European Union.

Measure 10. To support negotiations with the EU candidacy in Chapter 29 - Customs Union and negotiations on Chapter 8 - Competitiveness, 20 - Enterprise and industrial policy and other sections in order to ensure the most favorable conditions for users of free zones.

As provision and duration of certain incentives in free zones depends on negotiations with the European Union, it is necessary to support the negotiations in order to ensure the best conditions necessary for the operation of the existing and attract new users in free zones.

SC 11. Enhance cooperation with national institutions dealing with encouraging the development of entrepreneurship.

Measure 11. Establish better links and cooperation, in the coming period, with Regional Development Agency and ministries of the Republic of Serbia to take an active part in fostering the development of economic activities in free zones.

It is often very difficult to make major changes in economic policy. Many changes should be introduced gradually, or be used to a limited extent.

4. CONCLUSION

Free zones can be used as an effective tool for increasing the efficiency of operations, to attract foreign direct investment and increase employment. At this point, in order to rapidly overcome the underdevelopment of Serbia, we need clearly defined standards of economic development, which will, among other things, develop a comprehensive system of economic instruments for attracting investments. There is a tendency that free zone, as an instrument of economic policy, can enable a positive impact on the process of restructuring the economy of the Republic of Serbia in the field of attracting direct foreign investment, increase the technological level of production and services, which could cause the development of new businesses and increase employment. In the common area is necessary to unite all the amenities for business and ensure competitiveness in comparison to similar instruments in the world. Also it is necessary to simplify the models of incentives and allocation of state aid in order to increase effects of their utilization.

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NEGOTIATION METAPHORS IN A CROSS-CULTURAL SETTING - RESEARCH FINDINGS FROM CHINA, IRELAND, POLAND AND THE UNITED STATES

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ABSTRACT

Recent years have seen more and more research in the cultural dimensions of conflict resolution. This article focuses on metaphors concerning negotiations across cultures. The paper attempts to contribute knowledge in the field of cross-cultural studies on language and culture in negotiations. The article attempts to answer a question wheather the usage of metaphors for the process of negotiation differ across cultures.

Keywords: *cross-cultural negotiation, negotiation metaphors, conflict metaphors*

1. RESEARCH ON METAPHORS AND CULTURE

Research, such as the popular works of Lakoff and Johnson (1980) has tried to arouse interest in metaphor. Their results have prompted a more rigorous dissection of the subject matter, especially since their famous book; *Metaphors We Live By* was published. So many astute academics have continued to draw attention to the fact that not enough relevance has been attributed to the study of metaphors (Corradi Fiumara, 1995). They argue that there is a dire need to understand the relationship between metaphor and culture, as well as related subject matter. To give credence to earlier works by Schaff (1973), Borden (1982), and Galtung and Nishimura (1983), scholars such as Kuroda and Suzuki (1989) restated the underlying importance of advancing towards the subject matter of cross cultural studies by paying sole attention to language. Their argument emphasizes that, language offers a crucial glimpse into indigenous cultures, and since metaphor is an inseparable part of language, it therefore provides a great window of opportunity to understand the culture.

The effect that culture has on business and negotiations is tremendous. Cross border business relations often require effective communications despite the cultural and national differences. Most business managers tend to approach negotiations from the point of view of cultural competence so as to avoid failing. In the last few decades, most scholars have tried to understand how culture impacts values, communication patterns and business operations. Presently, most scholars and specialists recognize that cultural differences have a huge impact on all fronts of international business. In a dynamic environment like ours which holds so many divergent views, managers most definitely need to improve on their negotiation skills if they are to grow their business [Loewenstein, Thomson, 2000] especially as it relates to different cultures. Even those who most times have to stay indoors still get to effectively interact with all sorts of people from various backgrounds [Davison, Ward, 1999].

Through its constant use and application in processes that establish the story behind them, Metaphors gradually become unnoticed. Nevertheless, they still provide valuable insight about the attitude of the other side. Hence the need to gain a deeper understanding of metaphorical statements adopted in a time of conflict resolution for one to be regarded as being culturally proficient. Metaphors permeate the act of negotiation and associated dispute resolution techniques and their application is different based on culture.

2. CONCEPTUALIZING CULTURE

Culture is a bit complicated and may seem problematic as it relates to definition and interpretation [Sułkowski, 2009]. One of the very common and simple definitions of culture that has been adopted in the works on culture, negotiations and business in general was provided by Geert Hofstede; the author of the foremost extremely verifiable cross-country study of the impact culture can have in the field of management. Hofstede definition of culture goes as thus; “culture is the collective programming of the mind which distinguishes the members of one human group from another” [Hofstede, 2003].

Culture embodies everything we experience. It is a pair of lenses through which everyone views conflict (Chmielecki, 2013). It is also the means by which value systems and behavioral patterns are nurtured and transferred to future generations (Chmielecki, 2009). It is not possible to leave behind the cultural lenses when looking through a process. In the absence of right perspective and experience with which we are able to interpret and decipher the way forward, it would be almost, if not impossible to resolve conflicts (Chmielecki, 2012). Cultural influences affords people different behavior options to choose from; and also tries to provide a group of people with a “common sense” of what conflict is and how best to address it.

Culture is always important. If we take a broader definition of culture, which will incorporate a whole lot of difference at various levels, we discover that, all conflicts most times end up being intercultural. This more encompassing definition of culture can incorporate culture as being an important part of every conflict analysis, even at the expense of over-emphasizing on these cultural factors.

3. EFFECT OF CULTURE ON NEGOTIATION PROCESSES

We are by now very conscious of the impacts of cross cultural differences on cross border negotiation and that different cultural systems evoke different negotiation techniques. There is a significant amount of verifiable evidence which shows that different cultures tend to negotiate differently [Adair, Brett, Okumura, 2001]. Each nation’s style is shaped by its culture, history and a whole other factors. Negotiators not only witness differences in language or attire, but also different views of the global meaning of business objectives and motivation.

Culture affects negotiation in different ways. Firstly, culture has an effect on communication and hence the process of conceptualization, also on what the negotiators aim to achieve, the means by which they tend to achieve this and their expectations of how the other party should behave (Chmielecki, 2013). Likewise, culture also affects strategies and tactics deployed by negotiators. In international business, negotiating parties bring their beliefs, values and expectations to the negotiating table. It is very rare for them not to be conscious of these, because it is based on these values that they interpret, present, judge and communicate. Cultural influences are known to elongate and complicate negotiations. However, if they are managed properly, they can result in increased mutual benefits (Chmielecki 2013).

All conflicts usually include interpersonal communications that happen under the guise of culture. We must also emphasize that the level of impact culture may have will vary from individual to individual as no two persons from the same country, region, socio-economic class, religion or gender will display similar patterns of cultural attitudes and behaviors (Chmielecki, 2015).

Culture defines not only the potentials for transformation or resolution, but likewise the naming, ratification, interpretation, and reasons for conflicts. A sufficient reaction to conflict across different cultures requires a comprehensive appreciation of the culture, and an elaborate cross border experience.

Lewicki et al. [Barry, Minton, Saunders, Lewicki, 2006] specifically mentioned that, in spite of the fact that most professionals and scientists apply the word 'culture' in a different way, they all agree that the most important aspect of every international negotiation is culture. Hence, the reason why cultural differences impacts a lot influence on negotiations in so many ways even on the *definition of negotiations*. You can use Metaphors to perfectly understand how different cultures define and interpret negotiations.

4. LANGUAGE OF NEGOTIATIONS – A METAPHOR PERSPECTIVE

Metaphors have since been a part of business and economics (Gramm, 1996; McCloskey, 1995; Schneider, 2002; White, Herrera 2003). Referring to Boers (2000) general metaphorical topics in economics include: machines and mechanisms, plants, animals and gardening, fighting and warfare, health and fitness, ships and sailing, sports, etc.

Many research analysts and professionals of management apply metaphorical characterizations of organizations. Some even take it to the extent of stating categorically that all organizations are modeled using an implied metaphor. Metaphors play a much more cognitive, hypothetical and instructional role in the theory of organizations. Metaphors help us gain a better appreciation of the organizations we are understudying.

Nevertheless, metaphors have for a long time penetrated the other facets of business like marketing, working conditions, trade and negotiation.

Goodwin (1996) kept an extensive catalogue on the use of metaphors in the representation of services rendered. Walters-York (1996), on another front, noticed how metaphors were existent in the accounting practice. Metaphors have also left a remarkable impression in the world of marketing and advertising. A lot of research work has clearly shown the huge impact metaphor can have in promoting sales (Boozer, R., Wyld, D. & J. Grant, 1992).

As regards workplace performance, so many researchers have also pointed to the fact metaphors can play a very significant role in inspiring employees to excel in their job functions. Take for example; Phillips (1998) discovered that the use of metaphors can disclose limitations about performance levels, stress and pressure levels among employees. Research by Hostel and Hinz (2001) has given credence to the role that metaphors play in organizational change.

It has also been stated that metaphorical language can helping defining problems, formulating strategies, reforming organizations and the basics of business management (Such an, 1995).

Smith (2005) talked about the recurrence of metaphors in one of the main interest of business, which is negotiation. Detecting these metaphors early on in the execution of any deal makes you to be fully conscious of the objectives and implied propositions of the other negotiating party. Having a fair knowledge about each other's positions, puts both negotiating parties in a better position to explore all other options on the tableland reach a place of mutual gain or compromise.

Until recently, professionals in conflict resolution have paid limited attention to the subject of metaphor. Ordinarily [26] a metaphor source domain has been named in general terms (e.g. sports) and then providing informal instance of language.

Metaphorically, a dispute can be ascribed to mean, a battle, a game or a sport, and dispute resolution meaning; commerce, cooking, or maybe even dancing and gardening. Hocker and Wilmot [Hocker, Wilmot, 2001] talk about sixteen typical metaphors which are used by negotiators to address the conflict or to put things in a clear perspective: war, explosions, struggle, court trial, animal behavior, force of nature, communications breakdown, messiness, heroic adventure, games, bargaining, balancing, a tide, a dance, quilt-making or as a garden,. Gland and McCusker [Gland, McCusker, 2002] points out some of these expanding games to

incorporate sports while also adding theatre/cinema as part of the source domain. Haynes [1999] talks about war, rivalry games, and sojourn metaphors.

Negotiation can be likened a poker game whereby players must hold their cards against their chest. It can also be seen as football game, which requires a “level playing field”; and the “umpires” or “referees.” Acting as mediators, or can be likened to a basketball game, where you can sometimes take “timeouts”, or maybe like a baseball game where parties are sometimes allowed to play “hardball” [Thornburg, 1995] [Archer, Cohen, 1998].

5. RESEARCH FINDINGS

Respondents were asked to choose one metaphor that best describes the process of negotiation. Metaphors were selected for the questionnaire on the basis of previously conducted IDIs.

Table 1. Metaphors describing the process of negotiations.

	Chinese	American	Polish	Irish
War	23%	14%	21%	21%
Marathon	23%	18%	8%	7%
Poker	31%	9%	22%	9%
Climbing	3%	16%	3%	8%
Cooking	2%	8%	2%	2%
Dance	1%	5%	5%	0%
Sculpting	1%	1%	0%	1%
Journey	6%	12%	7%	11%
Golf	2%	2%	12%	18%
Football (soccer)	3%	6%	11%	19%
Plaing in a band	5%	9%	9%	4%

Source: Own study.

There were few more metaphors found during conducting literature studies but none of the respondents indicated them as relevant. Table 1 presents the results of the questionnaire.

6. DISCUSSION

Universally, there is a standard approach to undertaking negotiations. However, despite this overwhelming consensus these negotiating practices, there exists a subtle, yet far-reaching discrepancy in the manner basic concepts and gestures are clarified, analyzed, and realized.

We can clearly see from the graph that the use of metaphors during negotiations is different across cultures. We also see that some metaphors like metaphors on war and sports are usually more reliable than metaphors on art like sculpting or dance amongst all the cultures. The central theory of this research reveals that Polish negotiators resemble US and Irish negotiators in their definition and appreciation of the negotiating process more than the Chinese negotiators. It is clear that as far as understanding and defining the process of negotiation goes Polish respondents are similar to those of American and Irish origin than to Chinese negotiators and this further proves the theory. The original classification goes as thus: an American negotiator will try to gain as much control of the negotiation as possible. He posses the Warfield dictator, giving all the orders and bringing his intellectual arsenal to bear against the opposition. The Chinese negotiator would prefer to appear like the one who is able to withstand any level of pain in order to reach his end goal. The Polish negotiator fronts like a poker player who anticipates that his opponent will try to cheat him at some point, so he is very skeptical and

distrustful. However, where do all these interpretations come from? Many researchers [Bond, Hwang, 1986, pp.213-266] [Wang, Latané, Gabrenya, 1983, pp. 368-384] have classified Chinese culture as being collectivistic. This approach of collectivism is visible in different parts of the negotiation process. Both the high end type of collectivism likewise the long-term intentions [Hofstede, 2003] are typical of Chinese culture. You can refer to them as a type of mutual exchange warranty [Nussbaum, Williams, 2001]. They form relationships based on mutual benefits swapped between the parties of the transaction [Tan, Snell, 2002] [Walder, Li, Treiman, 2000]. And this eventually becomes the social norm due to Confucianism. The Chinese accord different treatments to different people based on the existing relationship between them. Another very crucial concept here is “guanxi”. Research has revealed that even though guanxi was historically and culturally “built” in the traditional Chinese way of acting and thinking [Marshall, Standird, 2000] [Tam, Wong, 2000], this perception is likely to change in the coming future. Attempts to try to make business deals without first making sure that there is sufficient synergy will be regarded as rude. The Chinese regard trust and harmony more importantly than any document. Previously, China's property rights were non-existent. Expectedly so, they place more emphasis on trust than immutable contract agreements. One other defining element here is the idea of “chikunailao” which means diligence and hard work. Hard work is an ideal which the Chinese hold very dear even in the face of very difficult situations. Being the birth place of martial arts, masters were only able to achieve perfection after so many years of rigorous work and numerous replay of blocks, kicks and strikes. So how does perseverance and diligence translate to negotiations? One sure thing for the Chinese when it comes to negotiations is that they “do their homework” more studiously than their Western colleagues. Another point is that perseverance is very useful at the negotiating table. What may appear normal for a Chinese negotiator will be an exhausting experience for a European. Displaying patience is usually a good sign “chikunailao”. It is very rare for a Chinese to concede in a negotiation early on. Likewise, they have got numerous tactics which they deploy on negotiations with the aim of extending the process so as to achieve a more favorable result. As for China, Confucianism plays a vital role in defining its contemporary values, but as for the US, these values were shaped by the characteristics of the set of people who were early settlers in the new territory. Colonizers quickly intertwined those Anglo-Saxon individualistic values with the absence of formal communication rules and an efficient time management. The emigrants, who came from Europe to America, were already displaying their individualism through the emigration. They also believed in freedom, self-improvement equality, and accountability. Americans appear to be more careful. They adopt a conversation style that is fast paced and they are quick to threaten court actions to invoke fines and penalties. This could seem threatening to the provider of the service and may make him rush into decisions that he may regret as he might have been quick to accept the terms of the contract drawn up by an American merchant. They are also relatively relentless and don't easily give up. They are very aggressive especially when it comes to winning. Further on, they believe that all negotiations should end in a particular way. “For the very competitive ones who don't like to lose, everything about life is a game which you must always try to win” [Kim, 2001, p. 40]. Americans are also very vibrant, elaborate and confident. They've got so much faith and positive vibes going on for them. Americans are also risk takers. The value ideals such as innovation progress and change. However, due to Poland's history, i.e. break-up of Poland, an era of communism and two world wars, the country seems not to have any actual established medium adopted in international trade, hence the lack of strong negotiation tradition. This also explains why Poles appear to be skeptical and distrustful about their business associates. The use of bribes, kick-backs, or other forms of inducements is still common practice in Polish way of doing business. Bonds between friends and family still play a very crucial role in Polish business culture. When talking about Polish elements of negotiations, the approach suggests of one which is rather

flexible than methodical, it's sometimes even chaotic. One other problem amongst Polish negotiators is that of adequate preparation. Polish negotiators are yet to attach any significant importance to it. They seem not to be pressured by any time constraints. In Ireland there are currently three metaphors that define their concept of negotiation, two are drawn from sports – which are football and golf, the last one is drawn from war. The metaphors from sports are heard in terms such as "hole in one", "fair offer", "opening bid", "hold strong cards", "rules of the game", "out of bounds", "moving the goalposts" "kick off", etc. This choice of words is reflective of their mindset that negotiations are a sporting competition which are regulated by a set of rules. After a thoroughly fought, but equitable game, results are announced and both teams go home. This metaphor makes it all the more difficult to think of a negotiation as a matter of life or death between maybe unprincipled opponents that won't mind playing dirty to get what they want. The Irish have a team like spirit and they like for the team to enjoy a friendly atmosphere. Team members are expected to hold a uniform position in the negotiation process, instead of sticking to their individual roles. Irish diplomacy firmly enshrines straight forward behavior and will always try to avoid triggering any unfavorable emotions when meeting etc. and they also tend to misrepresent direct talk as being rude, aggressive or arrogant. Hence, their love for rules and regulations. The Irish believe there is a proper way to act and react in most situations and that these protocols should be strictly adhered to. On another front, they often regard negotiation as 'war'. So they arrive at the table with an armory of facts ready to blow up your arguments, not minding the casualties. There don't mind the injuries, as long as in the end there is either a winner, a loser or two losers. Even though there exists numerous literary works on the benefits of metaphors in business, some notable scholars have drawn attention to the possible downsides of adopting the use of figurative language. Smith (2005) warned about of the perils in the use of metaphors. He explains that metaphors tend to highlight only one side of the statement while covering the other side. Because of Metaphor's ability to diminish very complicated situations into very simple, plane sentences, it is likely to gain approval from a group of people who have not been privy to the full picture behind the situation (Smith, 2005).

7. CONCLUSION

Differences in cultural orientation are capable of thwarting negotiators' plans and proceedings. Hence, the need to integrate cross cultural competence and global thinking approach in our negotiation tactics. With international business growing at an alarming rate, negotiations are becoming more sophisticated and far more challenging. Apart from the usual negotiation skills, negotiators should broaden their knowledge of different cultures, languages, customs of the world, and their ways of doing business. Cultural collision occurs not only when differences are noticed and misrepresented, but more often when what appears to be similar on the surface (for instance, netiquette) conceals some very important differences on a much deeper level. Perhaps the key to success is for you to treat each negotiation process as uniquely as they come. Being culturally competent does not only include a good knowledge of history, language, global-views, verbal or non-verbal gestures, or all the other 'do's and don'ts' but also involves a vast knowledge and appreciation of values, norms etc. Regrettably, most of our cultural "knowledge" comes from clichés or other simplifications. More often than not, most people will attach some emotional undertone and positive or negative value to them. "People from different parts of the world see, translate, and analyze events differently and hence, act differently upon them "[Adler, 2002, p. 77]. Different metaphors are also used to describe the practice of negotiation. It is very important that we grasp this concept since lots of people tend to impulsively use metaphor to affect the conflict resolution process. They have come to realize the power of metaphors in quickly and naturally changing the thought about the process.

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THE IMPORTANCE OF THE TYPES OF CUSTOMERS - A COMPARISON BETWEEN DAIRY COOPERATIVES FROM SWIETOKRZYSKIE AND MALOPOLSKIE PROVINCES

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ABSTRACT

Extremely important from the point of view of revenues from sales are the relations with customers. Type of customers and the market in which they carry out purchase transactions are differently perceived through the prism of influencing the enterprises' revenues from sales. For this purpose, was carried out research to show what kind of customer is important for cooperatives from the point of view of revenues from sales generation in the markets in which cooperatives offer their products. Additionally, in order to know whether there is a difference in the assessment of the validity of customers depending on the region in which the cooperative is situated, the study was conducted in two neighboring provinces, and the results were analyzed. As it can be seen cooperatives from both provinces concentrate only on Polish market, especially on local market. However, another is assessment of particular groups of customers regarding their validity by cooperatives.

Keywords: *customers, importance of customers, cooperatives*

1. INTRODUCTION

Extremely important from the point of view of revenues from sales are the relations with customers. Type of customers and the market in which they carry out purchase transactions are differently perceived through the prism of influencing the enterprises' revenues from sales. Awareness of the importance of individual customers in different markets enables companies to act so as to be able to shape the offer as much as it is possible to meet the customers' requirements and preferences and in this way to create value, and thus affect the revenues from sales. For this purpose, was carried out the research to show what kind of customer is important for cooperatives from the point of view of revenues from sales generation in the markets in which cooperatives offer their products. Additionally, in order to know whether there is a difference in the assessment of the validity of customers depending on the region in which the cooperative is situated, the study was conducted in two neighboring provinces, and the results were analyzed.

2. MEETING CUSTOMERS' NEEDS AS A BASIS FOR CONDUCTING BUSINESS ACTIVITY

The key task in forming a relational strategy of the company is not only to determine the relationship of the value creating portfolio (within the chain of interdependence and / or value network), but also to determine the composition of ways of appropriation of value in relation to the individual partners (protection and / or maximizing value), which will enable the company its further development (Zakrzewska - Bielawska, 2016, p. 616). One of the links of the value chain are customers.

Determining and satisfying the needs of customers through products that have value and accessibility and whose features are clearly communicated is the general purpose of any business (Burnett, 2008, p. V).

Customers are different, not only in terms of their needs, preferences, but also in terms of the value they generate for the company and the potential that each present (Stachowicz-Stanusch, 2007, p. 34). Like final consumers, organizations make purchases to satisfy needs. They buy

goods and services that will help them meet the demand for the goods and services that they in turn supply to their markets. In other words, their basic need is to satisfy their own customers and clients. A producer buys because it wants to earn a profit by making and selling goods or services. A wholesaler or retailer buys products it can profitably resell to its customers. A town government wants to meet its legal and social obligations to citizens (Perreault, McCarthy, 2002, pp. 184-185).

Regular customers constitute up to 80% of the turnover of enterprises, changeable only 20%. Meaningful action of the company is such as to retain customers, to keep them happy in order to return (Wachowiak, 2001, p. 27). Enterprises must treat the customer as a financial resource, which should be managed and that should be maximized just like any other resource (Kotler, 2004, p. 61). Every organization needs to think about its markets and how effectively it meets its customers' needs (Perreault, McCarthy, 2002, p. 10).

Companies must deliver need-satisfying goods and services to the customer. Often, that flow is not just for a single transaction but rather is part of building a long-lasting relationship that is beneficial to both the company and the customer (Perreault, McCarthy, 2002, p. 10). From the point of view of the customer the value of the product determines a set of features that assesses in the process of making purchase. While creating value for the customer, the company must take into account, among others, the fact that the customer selects a product, which in his opinion, has the highest value, and the value results from the assessment made by the customer's ability to satisfy needs in more efficient manner than competitors (Kall, B. Sojkin, 2006, p. 41). Different customers in different ways estimate the value of the offered products and services. However, there is in this field a few general principles, namely:

- should be provided to the market the best and most valuable offer in any particular terms,
- must be maintained other value "dimensions" in a particular minimum level,
- should be fight for a market share, improving every year the most important value,
- need to be created a company that will be with sacrifice and successfully defend this value (Brilman, 2002, p. 131).

The company can apply to take over the customers served by competitors, when it has at least one advantage in relation to the competitive offerings, for example:

- product offered by the company provides greater benefits to customers of a given segment than competitors' products (significant and important for the segment differences in the characteristics and features of the product),
- the price of the product is visibly and perceptibly beneficial to customers of a given segment (or other tangible incentives to encourage customers to change supplier of the product),
- a company is able to offer customers of a given segment better than competitors terms of delivery, service, warranty etc.,
- the company provides more credible and more reliable information about the product that by raising awareness of customers of a given segment, allow to see its superiority over competing products (Czubała, Niestrój, Wiktor, 2010, p. 69).

3. THE ANALYSIS OF THE IMPORTANCE OF THE TYPES OF CUSTOMERS OF DAIRY COOPERATIVES

An empirical verification of the importance of the types of customers of dairy cooperatives has been developed on the basis of results of direct interviews conducted with representatives of the senior management of dairy cooperatives with the help of interview questionnaire. For the research were invited representatives of all cooperatives from section 10.5 PKD from Świętokrzyskie and Małopolskie provinces. Because of the tendency of cooperatives to participate in the research ultimately the research was conducted in 7 cooperatives, i.e. 41% of the population.

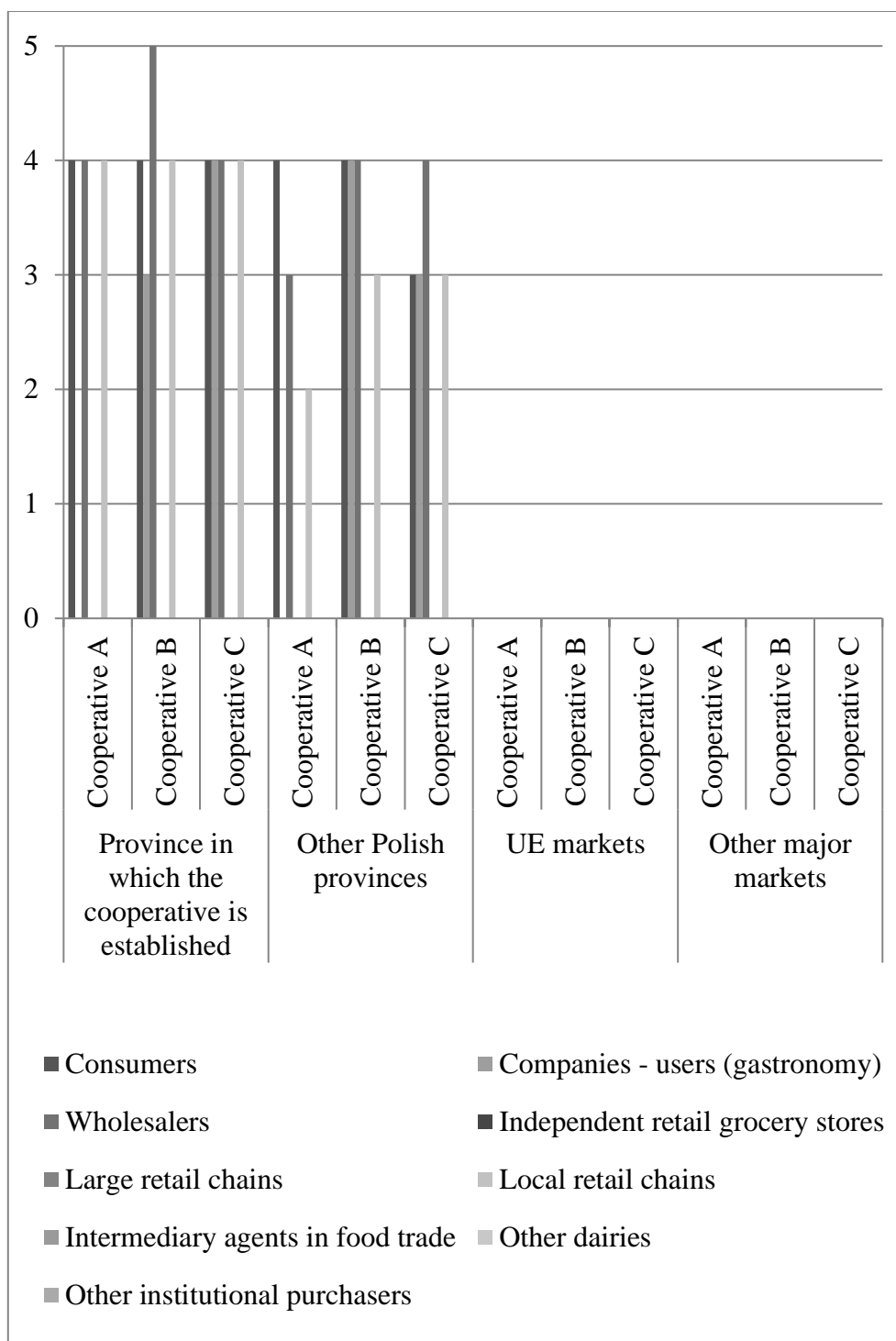
3.1. The analysis of the importance of the types of customers of dairy cooperatives from Świętokrzyskie province

Table 1: The importance of the types of customers of dairy cooperatives from Świętokrzyskie Province (compiled by author)

Customers Markets		Consumers	Companies - users (gastronomy)	Wholesalers	Independent retail grocery stores	Retail chains		Intermediary agents in food trade	Other dairies	Other institutional purchasers
						Large	Local			
Province in which the cooperative is established	Cooperative A	4	0	4	0	0	4	0	0	0
	Cooperative B	4	3	5	0	0	4	0	0	0
	Cooperative C	4	4	4	0	0	4	0	0	0
	Average rating	4	3.5	4.333333	0	0	4	0	0	0
Other Polish provinces	Cooperative A	4	0	3	0	0	2	0	0	0
	Cooperative B	4	4	4	0	0	3	0	0	0
	Cooperative C	3	3	4	0	0	3	0	0	0
	Average rating	3.666667	3.5	3.666667	0	0	2.666667	0	0	0
UE markets	Cooperative A	0	0	0	0	0	0	0	0	0
	Cooperative B	0	0	0	0	0	0	0	0	0
	Cooperative C	0	0	0	0	0	0	0	0	0
Other major markets	Cooperative A	0	0	0	0	0	0	0	0	0
	Cooperative B	0	0	0	0	0	0	0	0	0
	Cooperative C	0	0	0	0	0	0	0	0	0

5 - extremely important, 4 - very important, 3 - quite important, 2 - little important, and 1 - completely unimportant. If the cooperative did not have a specific customer - 0 - not applicable.

Chart 1: Chart for the data of Table 1 (compiled by author)



5 - extremely important, 4 - very important, 3 - quite important, 2 - little important, and 1 - completely unimportant. If the cooperative did not have a specific customer - 0 - not applicable.

As it can be seen in the Table 1 and Figure 1 dairy cooperatives from Świętokrzyskie Province do not operate on UE markets and on other foreign markets. They only operate on the Polish territory.

When analyzing Table 1 and Figure 1 it is clear that from the point of view of revenue generation:

- Three cooperatives indicated that on Świętokrzyskie Province market consumers are very important for them (average rating is 4.0). In the same time consumers from other Polish provinces are considered as very important for two cooperatives, and as quite important for one cooperative (average rating is 3.67).
- Companies - users (gastronomy) either from Świętokrzyskie Province or from other Polish provinces were indicated as very important by one cooperative, and as quite important also by one cooperative (average rating is 3.5). One cooperative do not have such customers on these markets.
- Wholesalers from Świętokrzyskie Province market were considered as extremely important by one cooperative, and as very important by two cooperatives (average rating is 4.33). On the other hand, wholesalers from other Polish provinces were considered as very important by two cooperatives, and as quite important by one cooperative (average rating is 3.67).
- Local retail chains from Świętokrzyskie Province market were indicated as very important by all analyzed cooperatives (average rating is 4.0). In the same time local retail chains from other Polish provinces were indicated as quite important by two cooperatives, and as little important by one cooperative (average rating is 2.67).
- All cooperatives did not indicate independent retail grocery stores, large retail chains, intermediary agents in food trade, other dairies, and other institutional purchasers as their consumers.

Further analysis of the Table 1 and Figure 1 shows that [3, 31-32]:

- Cooperative “A” has customers among consumers, wholesalers, and local retail chains either on Świętokrzyskie Province market or on the other Polish provinces markets. The cooperative indicated that from the point of view of revenue generation on Świętokrzyskie Province market very important are consumers, wholesalers, and local retail chains, while on the other Polish provinces markets – consumers are considered as very important, wholesalers – as quite important, and local retail chains as little important.
- Cooperative “B” has customers among consumers, companies - users (gastronomy), wholesalers, and local retail chains either on Świętokrzyskie Province market or on the other Polish provinces markets. Taking into account the revenue generation, the cooperative indicated that on Świętokrzyskie Province market extremely important are wholesalers, very important are consumers and local retail chains, and quite important are companies - users (gastronomy). From the point of view of the revenue generation on the other Polish provinces markets for the cooperative very important are consumers, wholesalers, and companies - users (gastronomy), and little important are local retail chains.
- Cooperative “C” has customers among consumers, companies - users (gastronomy), wholesalers, and local retail chains on Świętokrzyskie Province market, and on the other Polish provinces markets. In view of the revenue generation, the cooperative indicated that

on Świętokrzyskie Province market very important are all its consumers, i.e. consumers, companies - users (gastronomy), wholesalers, and local retail chains, while on the other Polish provinces markets for the cooperative very important are wholesalers, and quite important are consumers, companies - users (gastronomy), and local retail chains.

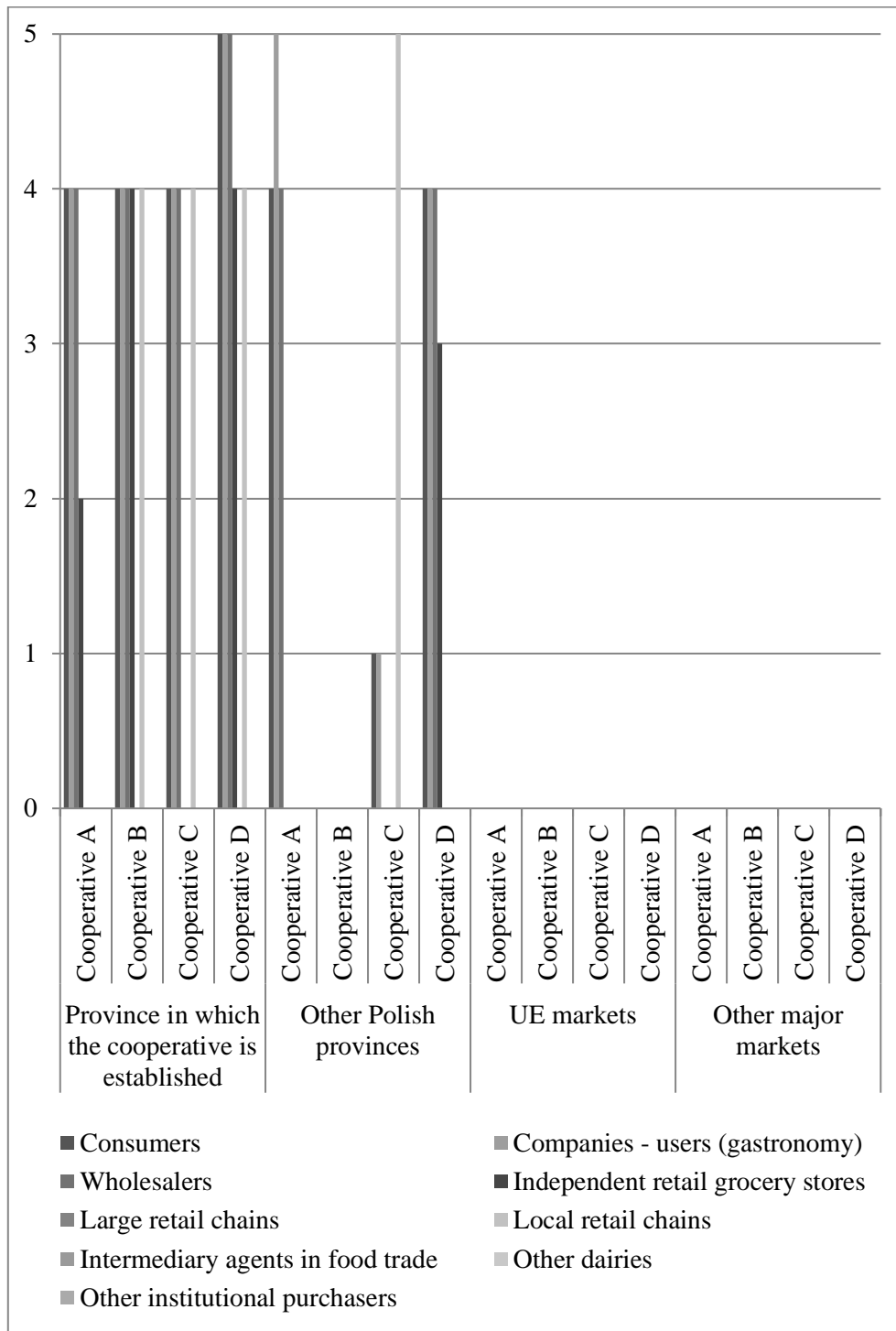
3.2. The analysis of the importance of the types of customers of dairy cooperatives from Małopolskie province

Table 2: The importance of the types of customers of dairy cooperatives from Małopolskie Province (compiled by author)

Customers Markets		Consumers	Companies - users (gastronomy)	Wholesalers	Independent retail grocery stores	Retail chains		Intermediary agents in food trade	Other dairies	Other institutional purchasers
						Large	Local			
Province in which the cooperative is established	Cooperative A	4	4	4	2	0	0	0	0	0
	Cooperative B	4	4	4	4	0	4	0	0	0
	Cooperative C	4	4	4	0	0	4	0	0	0
	Cooperative D	5	5	5	4	0	4	0	0	0
	Average rating	4.25	4.25	4.25	3.333333	0	4	0	0	0
Other Polish provinces	Cooperative A	4	5	4	0	0	0	0	0	0
	Cooperative B	0	0	0	0	0	0	0	0	0
	Cooperative C	1	1	0	0	0	5	0	0	0
	Cooperative D	4	4	4	3	0	0	0	0	0
	Average rating	3	3.333333	4	3	0	5	0	0	0
UE markets	Cooperative A	0	0	0	0	0	0	0	0	0
	Cooperative B	0	0	0	0	0	0	0	0	0
	Cooperative C	0	0	0	0	0	0	0	0	0
	Cooperative D	0	0	0	0	0	0	0	0	0
Other major markets	Cooperative A	0	0	0	0	0	0	0	0	0
	Cooperative B	0	0	0	0	0	0	0	0	0
	Cooperative C	0	0	0	0	0	0	0	0	0
	Cooperative D	0	0	0	0	0	0	0	0	0

5 - extremely important, 4 - very important, 3 - quite important, 2 - little important, and 1 - completely unimportant. If the cooperative did not have a specific customer - 0 - not applicable.

Chart 2: Chart for the data of Table 2 (compiled by author)



5 - extremely important, 4 - very important, 3 - quite important, 2 - little important, and 1 - completely unimportant. If the cooperative did not have a specific customer - 0 - not applicable.

Dairy cooperatives from Małopolskie Province do not operate on UE markets and on other foreign markets – see Table 1 and Figure 1. They only operate on the Polish territory. The analysis of the Table 1 and Figure 1 shows that from the point of view of revenue generation:

- Three cooperatives indicated that on Małopolskie Province market consumers are very important for them, and one cooperative indicated that they are extremely important (average rating is 4.25). On the other hand consumers from other Polish provinces are considered as very important for two cooperatives, and as completely unimportant for one cooperative (average rating is 3.0). One cooperative do not have such customers on the other Polish provinces markets.
- Companies - users (gastronomy) from Małopolskie Province are extremely important for one cooperative, and very important for three cooperatives (average rating is 4.25). In the same time this kind of customers from other Polish provinces were indicated as extremely important by one cooperative, as quite important also by one cooperative, and as completely unimportant by one cooperative (average rating is 3.33). One cooperative do not have such customers on the other Polish provinces markets.
- Wholesalers from Małopolskie Province market were considered as extremely important by one cooperative, and as very important by three cooperatives (average rating is 4.25), while wholesalers from other Polish provinces were considered as very important by two cooperatives (average rating is 4.0). Two cooperatives do not have such customers on the other Polish provinces markets.
- Independent retail grocery stores from Małopolskie Province market were indicated as very important by two cooperatives, and as little important by one cooperative (average rating is 4.33). One cooperative do not have such customers on Małopolskie Province market. Taking into account independent retail grocery stores from other Polish provinces it can be seen that only one cooperative have such customers, who are little important for it.
- Local retail chains from Małopolskie Province market were indicated as very important by three analyzed cooperatives (average rating is 4.0). One cooperative do not have such customers on the Małopolskie Province market. In the same time three cooperatives do not have customers among local retail chains from other Polish provinces. One cooperative, which has such kind of customer, assessed it as extremely important.
- All cooperatives did not indicate large retail chains, intermediary agents in food trade, other dairies, and other institutional purchasers as their consumers.

Additional analysis of the Table 2 and Figure 2 shows that:

- Cooperative “A” has customers among consumers, companies-users (gastronomy), wholesalers, and independent retail grocery stores on Małopolskie Province market, and on the other Polish provinces markets - consumers, companies-users (gastronomy), and wholesalers. The cooperative indicated that from the point of view of revenue generation on Małopolskie Province market very important are consumers, companies-users (gastronomy), and wholesalers, and little important are independent retail grocery stores. In the same time on the other Polish provinces markets – consumers and wholesalers are considered as very important, while companies-users (gastronomy) as extremely important.

- Cooperative “B” has customers among consumers, companies-users (gastronomy), wholesalers, and independent retail grocery stores on Małopolskie Province market. The cooperative does not have any kind of consumers on the other Polish provinces markets. Taking into account the revenue generation, the cooperative indicated that on Małopolskie Province market very important are all its customers, i.e. consumers, companies-users (gastronomy), wholesalers, and independent retail grocery stores.
- Cooperative “C” has customers among consumers, companies - users (gastronomy), wholesalers, and local retail chains on Małopolskie Province market, and on the other Polish provinces markets its customers are consumers, companies - users (gastronomy), and local retail chains. In view of the revenue generation, the cooperative indicated that on Małopolskie Province market very important are all its customers, i.e. consumers, companies - users (gastronomy), wholesalers, and local retail chains, while on the other Polish provinces markets for the cooperative extremely important are local retail chains, and completely unimportant are consumers, and companies - users (gastronomy).

4. CONSLUSION

Comparing the research results of the importance of the types of customers of dairy cooperatives from Świętokrzyskie and Małopolskie provinces it can be seen that on the market where cooperatives are established and on the other Polish provinces markets more types of customers have cooperatives from Małopolskie Province than cooperatives from Świętokrzyskie Province. Besides consumers, companies - users (gastronomy), wholesalers and local retail chains among their consumers are independent retail grocery stores.

As it can be seen cooperatives from both provinces concentrate only on Polish market, especially on local market. All of analyzed cooperatives have clients only among consumers and wholesalers on the local market. However, another is assessment of particular groups of customers regarding their validity by cooperatives. Moreover, other types of consumers on analyzed markets are different and depend on cooperative.

On the market where cooperatives are established, cooperatives from Małopolskie Province higher assess such customers as consumers and companies - users (gastronomy). On the other hand, cooperatives from Świętokrzyskie Province higher assess wholesalers than cooperatives from Małopolskie Province. Local retail chains are the same assessed by cooperatives from both provinces on this market. On the other Polish provinces markets, cooperatives from Świętokrzyskie Province higher assess consumers and companies – users (gastronomy) than cooperatives from Małopolskie Province. On the other hand, cooperatives from Małopolskie Province higher assess wholesalers and local retail chains than cooperatives from Świętokrzyskie Province.

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POLITICAL RISKS AS THREAT TO INTERNATIONAL BUSINESS

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ABSTRACT

In this article will be explained the concept of political risks and its influence on international business. The political risk represents very important segment as part of risks which occur in international business. Risk analysis which are represented in international business, provides a clear view on the risk of investing in particular country, as well as on the risk to conquer the market of that country. Based on comparison of leading companies data, engaged in risk analysis, we will show that political risks are in relation to the overall risks which occur in international business.

Large representation of the political risks can lead to big problems in the business of certain countries. Also, in this article will be analysed the existing data on the representation of political risks in European Union, as well as potential threats to the international trade which they can lead to. Special attention will be given to the Britain's withdrawal from the EU, as possible cause of an increase of the political risks in the European Union and the reduction of trade with this economic integration.

Keywords: *international business, risk analysis, political risk, European Union, Great Britain*

1. INTRODUCTION

International business include all the business activities that are carried across state borders (between two or more states, or between residents and entities of different countries) and include international trade in goods and services (transport, tourism, construction, marketing, communication), international investment, international technology transfer, as well as other forms of cross-border business cooperation (Kapor, 2015, pp. 3). From the above definition of international business, we can conclude that the political risk is a very important part of international business because it depends on him whether the company will decide for participation in the international market.

Political risk is a very important part of determining total country risk. Analysis of the overall risk gives companies a clear overview on the risk of their investment in a particular country, as well as on the risk of conquer the markets that country. At the present time, the political risk is viewed from different angles and has become one of the most important risks when determining total risk. The reduction of political risks in one country leads to an increase investment in one country, as well as to increase the country's competitiveness in international trade.

In this paper, will be explained in detail the concept of political risk, as well as their importance for international business.

In addition, it will be displayed the representation of political risk after the UK withdrawal from the European Union, as well as the possible scenarios in the future.

2. THE RISKS THAT APPEAR IN INTERNATIONAL BUSINESS

The increase in foreign trade has a very large impact on the changing relations between countries and changes in the behavior of companies in the international market. From the

standpoint of the state, is evident that the effectiveness of involvement in international trade flows mostly depend on their relationship to modern technological and market changes in the world but also by creating more favorable conditions for doing business in them.

Business concluded and carried out in an international environment carry numerous foreseeable and unforeseeable circumstances. The participants, precisely because, in any negotiation work must perform a detailed analysis and must be prepared for the possibility of risk that can bring revenues that were lower than expected.

Kapor (2015) points out that there are four basic risks in international business. The first risk is the risk of selection business strategy. This primarily refers to the risk of a bad selection of business strategy, which would lead to company losses. A second risk is reflected in the choice of an unknown foreign business partners. The third risk arises when performing transactions on international markets and to the risk of exchange rate. The fourth risk is precisely the risk by which we will deal with in this paper, and it is the political risk. Different authors call this risk as the risk of the country, because it is actually a combination of economic and political risks that are present in one country and occurring as a fact of the competent authorities a given country.

3. DEFINING THE CONCEPT OF POLITICAL RISK

Before we define the concept of political risk, we will define the concepts of politics and risk. The term politics dates from the period of ancient Greece, where it was by Aristotle defined as a practical human activity (Čupić, 2001, pp. 15). It also considered the statesmen at that time were smart people, because they are able to make decisions about what is good for them and for society and such people would only should be to manage households and communities. As the term comes from the period of ancient Greece, also the word politics comes from the word "polis" which means "city - state". A more modern definition for this term a policy as a purposeful activity which is determined for the future development and the means to achieve these objectives; in its original meaning was every public activity (Todosijević, 2001, pp. 255). The term risk is defined as the probability that the planned economic activity and objectives will not be realized; the possibility that the operations of unforeseen circumstances occur that will reduce or completely prevent the realization of profits (Todosijević, 2001, pp. 287). There are many different forms and dimensions of risks among which are: war risk, the risk of nationalization, the monetary risk. By combining these risks is obtained analysis of country risk, as relevant analysis for international business. Is considered to be relevant because it explains the economic and political situation in the selected country in which the analysis was performed.

In order to define the concept of political risk should take into account all of its factors, their level of influence and functioning of, as well as the effects produced by its impact. According to Ostojić term political risk means the activity of the state, which results in reducing the value of the company and the company's capital (Ostojić, 2010, pp. 15). Some authors in political risk also include favoring domestic or foreign companies, as well as any activity of state institutions designed to reduce the inflow of capital from abroad.

The political risk never should not equated with the risk of terrorism, kidnapping or abduction, because it is the product of state action and not the some other factor. Mostly when mentioning political risk refers to the negative activities of the state where the ongoing realization of specific projects. The state, through political risk can influence the micro and macro level. In terms of macro impact, it has equal influence on all the actors who are present in a particular market, while the micro influence includes the impact of a particular company or industry.

Experts of International Risk Management Institute (IRMI) believe that it is important to point out two differences in defining the concept of political risk. The first difference relates to the fact that the company defines the risks specific to the country and defines specific political risk

relating to the country. The second difference also includes two types of risks: country risk and the risk of instability. Political risk, among other things, defines the categorization of investors on direct and portfolio investors. This type of categorization is primarily done because of differences in exposure to risk. Portfolio investors are indirectly affected by political changes, while political changes have a direct influence on direct investors. The damage that can bring political risks going from the lowest one, where only affects the (psychological) management company, to more serious consequences, such as confiscation of property companies.

The political risks were changing during the development of international business, and to this day is changing. In the beginning, the dominant form of danger of political risk was the confiscation and nationalization of property and assets. In recent years, tendency is the realization of global peace, all the many factors, in addition to the war, is of great importance to increasing political risks. Primarily occurs introduction of retroactive measures by the government (most commonly reflected in the increase in taxes that companies are forced to pay).

The political risks today appear due to the impact of a number of factors from which the most important are: global macroeconomic factors, the high prices of goods and services, economic nationalism, decentralization of the state and its administration, NGO participation in the public life of the country, public interest for economic development and its effects.

4. INSURED DANGERS OF POLITICAL RISK

There are three the most aggressive actions which the government applies to are: nationalization, confiscation and expropriation (Ostojić, 2010, pp. 17). Beside this three actions, the government is engaged in rejection of contract of foreign companies and non-recognition of convertibility of the currency.

In the process of nationalization, government forcibly takes over private property of business enterprises or the whole industries. Government takes over by means of certain fees, which is not required. The confiscation constitutes alienation property that is privately owned by the state without compensation. Under the concept of expropriation means the forced seizure of property in private ownership in the common interest, but for a fee in the equal to its market value of the property being seized.

Companies beside these three aggressive methods encounter with waiver of the contract execution. State has the right to reject the contract due to a real and fictitious reasons that have nothing to do with the company, but were the result of factors beyond reach of the company. The currency is convertible if it has the ability to be exchanged for another currency, which is recognized in international payments. On the currency convertibility has a strong influence stability of the economy, i.e. the balance of payments should be balanced, without tendency for long-term deficit. Between mentioned, an important impact on the currency convertibility has political stability in the country. When the state declare its currency convertible, but that the conditions for convertibility are not fulfilled, the state in this case has huge losses, leading to the loss of confidence in the currency.

In addition to these dangers, in modern business emerge and stability of the political environment, war and unpredictable regulatory environment. Exactly risk of political environment is one of the most crucial in the choice of foreign investors to invest capital in a particular country. The state should implement the decentralization of the state apparatus, displaces part of political power to local governments and stabilize the political scene (not organize early elections). If that succeeds, the state becomes a better place for investments.

The war can be defined as hostile functioning of the armed forces of different countries (Ostojić, 2010, pp. 18). Consequently, if it occurs, war is a threat to the assets and capital of foreign investors who decided to invest in a country where the present state of war. There are various forms of insurance against war, but they do not apply to places where they frequent armed

conflicts. When a company does business in a foreign market it can always expect the risk of potential discrimination. Discrimination can make state at favoring local companies in relation to foreign investors. Foreign companies through a variety of additional financial requirement are being discriminated against and forced to pay higher costs compared to the costs paid by domestic companies.

5. THE POLITICAL INSTABILITY AS A DANGER TO INTERNATIONAL INVESTMENTS

Some authors emphasize the importance of the environment as an important factor in business. Unković and Stakić have opinion that if the environment is a favorable, it can reduce the possibility of risk, and if the unfavorable possibility risk increases (Unković, Stakić, 2010, pp. 258). Under the term environment, they also point out that this is a a complex term when looking at through foreign trade risks. There are different types of environments: political, economic, social and technological environment of foreign trade partners.

Country risk is considered to be political instability, bad laws that are passed, micro and macro economic instability. The most common forms of country risk is a political risk. Political risk is the risk that occurs the influence of political parties, when they fail to come to consensus, but also the Assembly, when do not adopt effective quality laws. Also, when there is a political risk key institutions do not function, there is a high rate of inflation, the growth rate is extremely low, while the taxes are high. It is crucial to assess the real size of the political risk, because it has a big impact on the overall risk. There are a number of questions which are made by foreign companies, which related to the political situation in the country in which the planned investment.

One of the most important parts of the political risk is the legal risk. The laws are vaguely defined, causing enormous risks. The most common consequences of poorly defined laws are the risks of crime and corruption.

6. OTHER RISKS

Besides the risks that occur due to the effects of the political leadership, there are other external risks affecting the stopping international business. These external risks are referred to as the risk of force majeure and to it is most frequently include: epidemics, fires, droughts, floods, earthquakes, political protests, terrorist attacks, wars, prohibition of exports and imports, the proclamation of a moratorium of debt and prohibition of transfer of convertible currency abroad. When it comes to the emergence of this type of risk, generally "no one not profiting from someone else's misfortune," which is meaning that the obligations envisaged by the agreement are resting as long as this risk is present. It can lead to termination of the contract agreement, but also to the negotiations on the further implementation of the contract. Apart from the earthquake and war, all other risks that are included in this group can be provided with insurance companies. The earthquake and the war can be provided with government credit agencies and export insurance. The state should equally allocate resources that collected for this type of risk for any company, domestic or foreign.

7. THE POLITICAL RISKS IN THE CASE OF THE UNITED KINGDOM AND THE EUROPEAN UNION

Form of integration such as the European Union ensures to its members unhindered movement of goods, services and people. Since trade is very important for every country, there is one of the first problems. United Kingdom abandonment of its economic - political integration runs the risk a lot. Trade between mentioned would can greatly reduced, due to increased trading costs. The barriers should be reflected on financial institution in the UK, because they represent a significant item in exports of this country, but depend on the rules of the European Union.

One of the important reasons for leaving the integration lies in payments to the common budget. It works on increasing imports from the United Kingdom, but from an economic point does not represent a significant financial segment. However, during the transfer of money in the Brussels budget due to reduced spending in the UK may increase the consumption of other members of integration as a result of increased imports from the United Kingdom. If domestic consumption increase after leaving the European Union, it will be seen through increased imports from member countries of integration.

Special attention is given relation to the labor market, which includes relationship towards immigrants. In the UK there is a large traditional freedom of the labor market, which could disrupt the closure of the labor market due to abandonment of integration. Perhaps it goes a different way, but the presence of risk on the observed case, increased significantly due to abandonment European Union.

8. TRADE BETWEEN THE UNITED KINGDOM AND THE EUROPEAN UNION

In the referendum held on 06.23.2016. the 51.9% residents of the United Kingdom voted for the option abandonment the European Union. The then Prime Minister David Cameron resigned the next day. "Successful" referendum easily can encourage and people in other countries of the European Union to decide to same move. If it comes to it, they could lead to international conflicts. How is all of this important for trade between Great Britain and the European Union? The market of the European Union as one of the largest markets in the world is of great importance for the UK, mainly due to exports of goods, services and fuel. How important is the European Union market shows data from 2015, where as many as 44% of the goods and services the United Kingdom exported precisely on this market. The total value of exports of Great Britain amounted to 222.3 billion GBP, while imports from the EU amounted to 291.1 billion pounds. With countries outside of the EU the value of exports of Great Britain amounted to 288.2 billion GBP, while the value of imports amounted to 257.1 billion pounds.

Chart 1: Exports in percentages of Great Britain in 2015 (<http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/>)



The graph shows the tendency of decrease in exports to EU countries, while exports to other countries increased. The key year was 2008, when exports to other countries has exceeded exports to the European Union. However, as many authors point out, exports to the EU is still at a high level and represents the most important British export. The authors emphasize that most trade with other countries, members of the European Union, achieved with the help of the contract which is the European Union has concluded with these countries.

Table 1: The largest trade partners of the United Kingdom in 2014
(<http://visual.ons.gov.uk/uk-perspectives-2016-trade-with-the-eu-and-beyond/>)

	Export	Value (bn GBP)		Import	Value (bn GBP)
1.	US	88	1.	Germany	71
2.	Germany	43	2.	US	52
3.	Netherlands	34	3.	China	38
4.	France	31	4.	France	37
5.	Ireland	28	5.	Netherlands	36

Table 1 illustrates where United Kingdom most exported, but also the countries from which imports the most. The authors observed that the countries of the European Union have a very important role in the export of Great Britain. Of top five countries where United Kingdom exports, four are members of the European Union. In imports, the situation is slightly different, but the United Kingdom mostly imported from Germany, and so we can see a very large impact of the European Union.

9. IMPLICATIONS OF LEAVING THE UK FROM THE EUROPEAN UNION

Leaving the European Union raises the question whether and what consequences to leave on relationship between mentioned. For now, the most visible consequence is a downfall of value the British currency for which is the most deserving foreign trade deficit the United Kingdom. The British pound significantly dropped against the dollar than to the euro, although the decline is worrying in both cases. The first drawdown value of the pound took place after a vote of the referendum, while the second ensued on the Congress Theresa May 30.09.2016. where has supported Brexit.

The authors of this paper point out that the release of the United Kingdom from the European Union's political move, due to which will occur many risks that will significantly impact on international trade and capital inflows. According to Saxo Bank economist Christopher Dembik, the result of such a course of events will reflect the three economic problems in 2017:

1. The decline in the value of the British pound will be reflected in increasing in the inflation rate, which will have an impact on the reduction of foreign investments in the UK, but also reducing the purchasing power of households,
2. Companies which operate in the area of the United Kingdom will not be encouraged on recruitment of new workers and expand its capacity, because of the uncertain economic - political situation,
3. According to the theoretical understanding due to the lower value of the British pound should be an increase in exports. However, according to research by the Office for Budget Responsibility, it came to the data that fall in the value of the pound minimally leads to an increase in exports.

The biggest losers in the political decision of the United Kingdom are the companies which doing business in this area. The companies expect uncertainty regarding for further operations and the placement of its own goods to the markets with which most trade. Big influence will be a behavior of the European Union, i.e. the manner in which will products from the UK be treated in the area of integration. The Bank of England with intervention in the market was trying to keep a larger decline in the value the British currency. Also, their assumptions are that they are not sure how long market instability, while believe that the political uncertainty caused by the withdrawal from the European Union duration of several years.

We have to mention that in addition to the Great Britain and the European Union is a loser. Primarily referred to the on liberal orientation of trade, which is oriented on Asia market by the UK through its influence transferred to the entire European Union. The British principle of liberal economy will not disappear overnight, but will be gradually European Union under the influence of other influences turn more protectionist.

10. THE RESEARCH AGENCY ON THE REPRESENTATION OF RISK IN THE UK

The agency Euler Hermes at the beginning of his report on the UK highlights its strengths and weaknesses. Among these advantages are: Support for Economic and Fiscal Policy, a healthy banking sector, diversified export structure (Country Report United Kingdom). As disadvantages cited: high trade deficit, high current account deficit, uncertainty caused by the release of the European Union, low productivity growth (Country Report United Kingdom). Also, the report indicated that there is a possibility for the occurrence of financial risk, while the representation of political risk at very low levels, with the possibility of its increase. To mitigate the possibility of the occurrence of financial risks, the Bank of England is ready to inject 250 billion GBP.

The withdrawal the United Kingdom from the European Union is a process that will last for a longer period of time. In this way, according to experts from Euler Hermes, UK should negotiate the retention of the free trade agreement with European countries, but also the realization of more favorable conditions with countries with which the EU countries have cooperation. Based on all above stated there are two possible further scenarios. The first is to keep the free trade agreement which goes in favor of companies from the UK. In the opposite situation, the European Union can prevent the achievement of an agreement on free trade and thus the company will be the biggest losers.

The report also states that it will continue to increasing illiquidity from 2016. and in 2017. at an accelerated pace. One of the main reasons that led to an increase in insolvency is the effect that when leaving the European Union transferred on British currency. Due to the weakening of the British pound, the activity that is carried out through of domestic companies is significantly slowed. Companies have started to rapidly go bankrupt, but mostly in retail and construction.

11. FINAL CONSIDERATIONS

International business is one of the most important segments of the functioning of each country. From the above, we can come to conclusions that are very important political risks for international trade, how from the perspective of the company, as well as from the perspective of the country. If seeks to reduce political risks, the more will come and to a more favorable environment for conducting international business. The objective of each country should be to reduce political risks to a minimum, and therefore the goal of every company is business on the more secure marketplace.

The political risks today are caused by a combination of economic and political relations. The goal of each country should be to reduce these risks, for better positioning with leading credit agencies. Exactly on the basis of examination of the reports leading credit agencies, foreign investors decide to invest.

The authors in this paper analyze the representation of political risk on case the United Kingdom and the European Union. Based on the analyzed data, it is obtained by insight into to the European Union's most important trading partner the United Kingdom. It also leads to the perception that Britain should maintain good relations with the European Union, because there is a risk due to withdrawal of integration not only between themselves but also the rest of the world. In the potential danger are companies that operate in these areas. However, analysis of

the global credit agencies indicate to us that the potential danger still does not have, but should be especially careful in the further course of the scenario.

The analyzed data leads to the conclusion that if there is a larger complication of international relations between the two observed entities, the biggest loser to be the United Kingdom and the companies that carry out operations on its territory. It remains to us to continue to monitor the political - economic moves of the United Kingdom and the European Union, because if continue the tension between them, it could lead to serious disturbances in world trade.

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PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND PROTECTION OF PRIVACY – TOWARDS A HARMONISED EU STRATEGY IN THE ONLINE ENVIRONMENT

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ABSTRACT

The unprecedented expansion of the online communication of copyright protected material which, by definition, knows no state borders, has imposed a radically international perspective to the efforts aiming to guarantee the legal protection of human creativity. Moreover, the phenomenon of the information society accentuated the confrontation of the competing interests of producers and users, a conflict that often takes the form of a clash between two irreconcilable socio-economic concepts. The European Union’s main legal response to the challenge of copyright protection in the context of digital technologies was the adoption of the Directive (2001/29) on the harmonisation of certain aspects of copyright and related rights in the information society. This act was a significant step in harmonising copyright protection within the EU, but it is outdated and poses numerous problems of implementation.

In September 2016, the European Commission issued a proposal for a Directive on Copyright in the Digital Single Market, whose prospect of adoption is still uncertain. Protection of privacy and trust in the online environment is another issue of growing complexity, especially in the context of often divergent national legislations. The EU Data Protection Directive (95/46) – that globally defined the rights and duties of all stakeholders with respect to the processing of personal data – was adopted more than 20 years ago and was recently repealed by the Regulation 2016/679, applicable from 25 May 2018. However, the existing provisions have not solved many important issues related to intellectual property rights (IPRs). This paper seeks to go behind and beyond legal questions of copyright protection – and, more generally, protection of IPRs – on the one hand, and data protection, on the other, endeavouring to analyse the complex and still insufficiently explored relation between predominantly private good of safeguard of IPRs and mostly public goods of data protection and trust in the online environment.

Keywords: *copyright protection, data protection, European Union, essential facilities, intellectual property rights, online environment*

1. INTRODUCTION

As a *sui generis* international organisation, the European Union (EU) was founded by multilateral intergovernmental treaties, the objective of which was to set up the common values and to define the “categories and areas of Union competences”.¹ In March this year was celebrated the 60th anniversary of the entry into force of the “Treaties of Rome”,² acts that had laid the foundations of what has become the EU. This organisation has numerous specificities,

¹ This is also the denomination of the entire Title I (Part One) of the Treaty Establishing the European Union, comprising the fundamental rules concerning the redistribution of the competences between the EU and its Member States.

² This common denomination designates the two treaties signed in Rome on 25 March 1957: the Treaty establishing the European Economic Community (EEC), and the Treaty establishing the European Atomic Energy Community (EAEC). The last important changes of the EU’s fundamental acts were introduced by the Lisbon Treaty, which entered into force on 1st of December 2009. Consequently, the actual institutional structure and competences are defined by the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU), consolidated version of the TEU and the TFEU [2008] OJ C83/13.

out of which “the inherent dynamism of the legal and political structure of the EC/EU” (Ćemalović, 2015, p. 258) seems to be its quintessential characteristics. This dynamism also includes the changing structure of EU’s areas of competence, including its prerogatives in the fields of copyright protection, as well as the protection of privacy in the online environment. Over the last two decades, the effects of economic, political and cultural globalization have been additionally accentuated by the swift expansion of the information and communication technologies (ICT), including the means of online communication of various data and different works covered by intellectual property rights (IPRs). More precisely, “the connection between a person and their personal data, particularly [...] in the online environment, is stronger than a connection between a person and conventional property” (Bernal, 2014, p. 180), while, in the same time, the “copyright protection on the Internet will be advanced by encryption and coding devices rather than piecemeal legislation or court decisions” (Bouchoux, 2012, p. 290). However, on the basis of its competencies defined by the Treaty on the Functioning of the European Union (TFEU), the EU has made a significant legislative effort in order to define the rights and duties of all stakeholders with respect to the processing of personal data, as well as to respond to the challenge of copyright protection in the context of digital technologies. The two main acts in the above mentioned fields are the General Data Protection Regulation (2016/679),³ applicable from 25 May 2018, and the Copyright Harmonisation Directive (2001/29),⁴ adopted more than 15 years ago. In September 2016, the European Commission issued a proposal for a Directive on Copyright in the Digital Single Market, whose prospect of adoption is still uncertain.

The objective of this paper is to analyse the current controversies between the EU’s legislative framework in the field of digital-related protection of IPRs, on the one hand, and data protection, on the other, with the emphasis on the challenges imposed by the ICT and the communication in the online environment. In such a context, a particular attention must be paid to the conflict of national IPRs and EU competition legislation, the issue regarding which it becomes crucial to examine the application of European (and, partially, American) legislation and case law on “essential facilities” (Chapter 1), before turning to the question of the consequences of EU’s data protection legislation on IPRs protection (Chapter 2).

2. LEGISLATION AND CASE LAW ON “ESSENTIAL FACILITIES” – ASPECTS RELATED TO INTELLECTUAL PROPERTY RIGHTS

2.1. Digital Market Regulation and IPRs

The competence of the European Union (EU, previously: the European Communities)⁵ in the field that could be globally defined as “digital market regulation” is a complex issue, evolving together with the development of EU’s primary law, as well as with the constant mutation of digital environment and Internet governance related issues. As some global studies have revealed, “despite being a single market with free flows of goods, services and people for many

³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC, *Official Journal* L 119, 04.05.2016, pp. 1-88.

⁴ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, *Official Journal* L 167, 22.06.2001, pp. 10-19.

⁵ See n. 2. Notwithstanding the fact that, according to the Lisbon Treaty (2009), the European Community (EC) has ceased to exist and was replaced by the European Union, in this article it will also be referred to the EC (and CJEC) when the legislation and/or jurisprudence in question were adopted before 1st of December 2009. The reason for this choice lies in the progressive establishment of the Common/Internal/Unique Market and in the need to present the constant evolution of digital-related legal framework.

decades, the European Union still functions like a fragmented market for digital trade”,⁶ while some authors have remarked that in the EU “Internet regulation remains difficult and ambiguous” (Savin, 2013, p. 2). However, the competence of the EU related to the abuse of a dominant position (Art. 102-106 of the TFEU) has led to the significant case-law difficultly applicable to the digital environment, while the intrinsic territoriality of the protection of IPRs can easily contradict with numerous aspects of competition legislation in EU’s single market. The conflict of national IPRs and EU competition legislation has been particularly violent in the field of licensing. In case *Volvo v Erik Veng*⁷, implementing the qualitative approach to the content of an IPR (“subject-matter” of an exclusive right), the Court of Justice of the European Communities (CJEC, now: Court of Justice of the EU - CJEU) seemed to have “took a strong stance for the enforcement of intellectual property rights in the form of refusal to grant a licence” for a registered design (Jiang, 2015, p. 90). However, in its judgement of 6 April 1995 in case *Magill*⁸ the same Court, this time in a copyright-related matter, seriously limited the right to withhold information, because the “appellants’ refusal to provide basic information by relying on national copyright provisions thus prevented the appearance of a new product [...] which the appellants did not offer and for which there was a potential consumer demand” (para. 54). Even if it can be considered as belonging to the pre-digital era, the wider applicability of this judgement is beyond any doubt: services provided by a “gatekeeper” web site and “basic information” necessary for the appearance of a new product might be considered as an “essential facility”. Nevertheless, the “essentiality” of the facility is yet another vague and extremely broad legalistic and doctrinal concept. There are at least two important questions this chapter will endeavour to answer. Primarily, could an “essential facility” be seen as a re-contextualised application of the notion of “public domain” to un-expired IPRs, a sort of a compulsory license that could be applied to the web-sites in a digital-friendly interpretation of the existing jurisprudence? Secondly, how the existing case-law, both in the EU and the US, might influence the definition of an “essential facility”, especially when related to IPR issues? According to the longstanding international legal principles established by the Berne Convention for the Protection of Literary and Artistic Works⁹ (1886), the very essence of copyright holder’s prerogatives is the exclusive right to reproduction, so much so that the word “copy” is a component of the English denomination for the notion known as “author’s rights” in numerous other languages (*les droits d’auteur, Urheberrechte, los derechos de autor*). According to Art. 18-1 of the Berne Convention, the works covered by copyright, that “have not yet fallen into the public domain in the country of origin through the expiry of the term of protection” can be reproduced without owner’s authorisation only if “such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author” (Art. 9-2). This situation could, therefore, be defined as a premature falling of a work into the public domain, at least if one adhere to the opinion that, before expiration, certain IPRs have been available, “but use of them was restricted in various ways” (Frankel, 2015, p. 204). Can this restriction be imposed by EU’s legislation on the abuse of a dominant position? The CJEC’s judgment in case *IMS Health*¹⁰ gives a nuanced, though still insufficiently precise answer. After recalling that “according to settled case-law, the exclusive right of reproduction forms part of the rights of the owner of an intellectual property

⁶ “Digital Dividends – World Development Report 2016”, International Bank for Reconstruction and Development / The World Bank, Washington 2016, p. 37.

⁷ CJEC, judgment of 5 Oct. 1988 in case C-238/87 *AB Volvo v Erik Veng Ltd*. [1988] ECR I-6212.

⁸ CJEC, judgment of 6 Apr. 1995 in joined cases C-241/91 P and C-242/91 P *Radio Telefis Eireann and Independent Television Publications Ltd v Commission of the European Communities* [1995] ECR I-743.

⁹ Treaty administered by World Intellectual Property Organization, available at <<http://www.wipo.int/treaties/en/ip/berne/>> (21.03.2017).

¹⁰ CJEC, judgment of 29 Apr. 2004 in case C-418/01 *IMS Health GmbH & Co. OHG v NDC Health GmbH & Co. KG*, [2004] ECR I-5069.

right, so that refusal to grant a licence, even if it is the act of an undertaking holding a dominant position, cannot in itself constitute abuse of a dominant position” (para. 34), but “exercise of an exclusive right by the owner may, in exceptional circumstances, involve abusive conduct” (para. 35). After reiterating three conditions defined by settled case-law, the CJEU concluded that in the balancing of the interest in protection of an IPR against the interest in protection of free competition, the latter can prevail only where “the undertaking which requested the licence does not intend to limit itself essentially to duplicating the goods or services already offered on the secondary market by the owner of the intellectual property right, but intends to produce new goods or services not offered by the owner of the right and for which there is a potential consumer demand” (para. 49). Given that the Court has left to the national jurisdictions to determine whether the conditions for limitation of IPRs are fulfilled, two important controversies still remain: 1) how to define “a new good or service”?; and 2) can this limitation of an IPR be abused by competitors, which could seek licenses in copyright holders’ markets claiming that they intend to offer a new service?

Concerning the first question, the situation is particularly complex for software and various Internet-based services. Sometimes certain minimal cross-combinations or functional changes could be used to define a software as new, while, as some authors have pertinently remarked, in cloud-computing, “each operator tries to keep its users”, leading to reinforced “balkanization of the Internet” (Bishop, 2014, p. 28). Numerous possible unlawful limitations of IPRs could stem from the abusive use of the right the CJEU has given to undertakings claiming they intend to offer a new service. These dilemmas become even more complex if one wants to identify which elements of an Internet-based service covered by an IPR are “indispensable to carrying on [...] business, inasmuch as there is no actual or potential substitute”, as stated in paragraph 41 of the CJEC’s judgement in case *Bronner v Mediaprint*¹¹.

2.2. Essential facilities vs. IPRs

Concerning the importance of IPR-related case-law for the definition of a facility as “essential”, the fundamental question seems to be the subtle equilibrium between, on the one hand, the need to encourage and protect the original creative contribution of a creator/inventor (incentives to innovate) and, on the other hand, the general interest to actively promote competition. As some authors have remarked, “IPR and the essential facilities are entirely different policy instruments” (Hatzopoulous, 2014, p. 51). However, the good application of the later largely depends on a series of answers provided by the legislation and the case-law related to IPR protection, given that a legitimate and legally guaranteed monopoly constituted by an IPR is partially limited in favour of the free competition and not vice versa. In its particularly voluminous judgement (1373 paragraphs) of 17 September 2007 in case *Microsoft v Commission*¹², the Court has provided some elements of a common European response regarding the balance between antitrust and protection of IPRs.

According to the classical definition of the essential facilities doctrine, “a company which has a dominant position in the provision of facilities which are essential for the supply of goods or services in another market abuses its dominant position where, without objective justification, it refuses access to those facilities”,¹³ so much so that, in certain cases, “a dominant undertaking must not merely refrain from anti-competitive action but must actively promote competition by

¹¹ CJEC, judgment of 26 Nov. 1998 in case C-7/97 *Oscar Bronner GmbH & Co. KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, Mediaprint Zeitungsvertriebsgesellschaft mbH & Co. KG and Mediaprint Anzeigengesellschaft mbH & Co. KG*, [1998] ECR I-7817.

¹² CFIEC, judgment of 17 Sep. 2007 in case T-201/04 *Microsoft Corp. v Commission of the European Communities*, [2007] ECR II-3619.

¹³ Opinion of Advocate General Jacobs in case *Bronner v Mediaprint* C-7/97 [1998] ECR I-7794, para. 34.

allowing potential competitors access to the facilities which it has developed”.¹⁴ On the other hand, various communication protocols necessary for website infrastructure are technologically innovative and covered by various IPRs. Therefore, in the case of compulsory license, there is a high degree of probability that the licensee’s future products will compete with the products of the owner of an IPR. The Court’s complex reasoning in case *Microsoft v Commission* is partially founded on the pre-existing case-law, given that it has refused Microsoft’s invocation of its IPRs as “inconsistent with the *raison d’être* of the exception which that case-law thus recognises in favour of free competition, since if the mere fact of holding intellectual property rights could in itself constitute objective justification for the refusal to grant a licence, the exception established by the case-law could never apply”.¹⁵ If this reasoning can be understood as a clarification of the “criteria set in former case law for solving conflicts between IPRs and competition law which were not developed clearly so far” (Koch, 2011, p. 33), another set of criteria that the Court has introduced raises numerous controversies. Here we will examine two important elements that could influence Court’s future decisions and introduce unnecessary unpredictability concerning the definition of “gatekeeper” web site as an “essential facility”. These elements are the obligation to share interoperability information¹⁶ and the impact on the IPR holder’s incentives to innovate.

Pursuant to article 6 of the Directive 2009/24/EC¹⁷ (act repealing and replacing the previous Directive 91/250/EEC), under certain conditions, the authorization of an IPR rightholder shall not be required “where reproduction of the code and translation of its form [...] are indispensable to obtain the information necessary to achieve the interoperability”, while the Court, somewhat roughly and without direct quotation, invokes “the recitals to Directive”, adding that they “specifically indicate that withholding interoperability information may constitute an abuse of a dominant position”.¹⁸ However, given that “intellectual property laws around the world tend to be based on a long-term perspective” (Killick, 2007, p. 4), is the obligation to disclose interoperability information covered by an IPR a Trojan horse that would allow unlawful violation of an IPR? This question can only be answered by referring to the concept of “incentives to innovate”.

The protection guaranteed by an IPR to the author or inventor has numerous objectives, out of which the most important are to reward the effort invested in intellectual creation, to encourage innovation and give recognition to creativity. In more economic terms, “by assigning exclusive rights [...] in the outcomes of intellectual and creative efforts the incentives to develop new products increase” (Koch, 2011, p. 7), and for that very specific reason, the competition law – through the mechanism of compulsory licensing – can override an IPR only if the interest to promote competition is not having negative effects on IPR holder’s incentives to innovate. However, in its judgement in case *Microsoft v Commission*, the Court seems to have significantly limited those incentives, by obliging the IPR holder to “sufficiently establish” that the disclosure of the interoperability information would have “a significant negative impact on its incentives to innovate” (para. 697). Apart from the fact that an IPR holder bores the burden of proof, what worries the most in the Court’s reasoning are the two adjectives that could give rise to unforeseeable uncertainties regarding their interpretation and implementation. When it shall be considered that the alleged negative impact is established by an IPR holder to the degree

¹⁴ *Ibid.*

¹⁵ CFIEC, judgment in case *Microsoft v Commission*, para. 690.

¹⁶ The interoperability of websites is commonly defined as „an ability achieved with the assistance of technical, semantic and organisational measures to exchange web content via uniform file formats, agreed protocols and services in a form enabling automatic processing”, Framework of Websites - Interoperability of the State Information System, version 1.0, Estonian Ministry of Economic Affairs and Communications, 2012, p. 4.

¹⁷ Directive 2009/24/EC of the European Parliament and of the Council 23 April 2009 on the legal protection of computer programs (OJ 2009 L 111, pp. 16-22).

¹⁸ CFIEC, judgment in case *Microsoft v Commission*, para. 1313.

that could be considered as “sufficient”? Which degree of this impact should be considered as “significant”? In the current state of its development, neither the EU legislation nor the case law of its supreme jurisdiction haven’t answered to these questions in a sufficiently precise and universally applicable way. Even if legal doctrine often underlines that “the overreaching principle is that EC competition law should only override intellectual property rights in exceptional circumstances” (Killick, 2007, p. 15), the reasoning distilled from the recent case-law has shown that these circumstances are far from being exceptional.

Concerning the possible application of American case law on “essential facilities” to Internet-based services covered by an IPR, in its opinion in case *Trinko*, the US Supreme Court has importantly limited the scope of its own judicial interpretation, underlining that existing legal provisions for access “makes it unnecessary to impose a judicial doctrine of forced access”.¹⁹ Moreover, in the same opinion, the antitrust duty to deal has been seriously limited, allowing the conclusion that “the standard of proof for leverage claims is higher in the United States than in Europe” (Kim, 2012, p. 156). Therefore, if some crucial elements of an Internet-based service are covered by an IPR, the duty to deal should *a fortiori* be even less imaginable. In its application to the case the European Commission is still pursuing against Google, the fact that Google’s searching engine gives advantageous position to its own services on the results page could be understood as an anti-competitive practice only under three conditions: 1) the results listing and the order of items this listing comprises is considered as an “essential facility”; 2) those results have been manipulated in such a way that a duty to deal should be imposed and 3) the limitation of IPRs that encompasses the obligation to share is justified by the interest to promote competition.

Concerning the first condition, alleged manipulation of search results in favour of Google’s own services presupposes that not only the listing of search results (SERP - search engine results page) is a “facility” itself, but also that the order of items in it is “essential” for Internet-based service as an asset that is vital input “to the production of value at later stages of production” (Kim, 2012, p. 186). Even if one considers the results listings as a “facility”, their “essentiality” is far from being proven, given that order in such a listing can often diverge, depending on search query (keywords), use of quotation marks or server localisation.

Regarding the condition related to the manipulation of search results in such a way that a duty to deal should be imposed, it is even more difficult to fulfil it. Even if manipulation is proven, it is still not enough to represent an abuse of a dominant position, given that “no Google rival has been ‘denied access’ - quality competitor websites are still highly ranked for certain keywords, though perhaps not for others” (Lao, 2013, p. 278). Additionally, the order of items displayed at SERP is normally the direct consequence of a search algorithm, matching terms typed by the user and objectively identifiable references.

Finally, it should be proven that the interest to promote competition importantly supersedes the *raison d’être* of the legal monopoly given by various IPRs intrinsically related to web-based services. The considerations extensively developed in this chapter regarding the judgement in case *Microsoft v Commission* are fully applicable. The precise, universally applicable criteria that would assure the balance between the necessary incentives to innovate and not less important protection of free competition still remains an unsolvable equation for both EU and US supreme jurisdictions.

¹⁹ *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407–11, 415 (2004).

3. POTENTIAL IMPACT OF THE RECENT EUROPEAN DATA PROTECTION LEGISLATION ON THE PROTECTION OF IPRs

During the last 15 to 20 years, the EU has made a significant effort in order to set up a legislative framework for data protection.²⁰ In such a context, due attention has also been paid to the data processing and ICT related issues. Without any intention to draw up an extensive list of the legislative acts in this field, worth mentioning are Directive on universal service and users' rights relating to electronic communications networks and services²¹ and Directive concerning the processing of personal data and the protection of privacy in the electronic communications sector²², adopted, respectively, in February and July 2002. Both of those act have been amended in 2009²³. However, given its overarching objective, comprehensive nature and potential future impact on the protection of IPRs, in this chapter the focus will exclusively be on Regulation 2016/679²⁴, applicable from 25 May 2018. Processing of personal data is an issue highly connected with the protection of human rights. However, there is still "a great indeterminacy in legal terminology between the concepts of privacy and identity [that has] reflected at the legislative and regulatory levels, namely within the legal framework of data protection" (Akrivopoulou, Psygkas, 2011, p. 30). In 1981, the Council of Europe adopted the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data²⁵, amended in 1999 and ratified by all 28 EU member states. On the other hand, the protection of IPRs is guaranteed by another internationally recognised convention – the Universal Declaration of Human Rights²⁶, whose Article 27.2 proclaims that "everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author". Therefore, the crucial controversy to be resolved is the situation when certain personal data have to be revealed in order to protect certain moral and/or material interests guaranteed by an IPR. In other words, under what circumstances the protection of personal data might overrule the need of adequate legal protection of IPRs or *vice versa*? As a crucial part of the EU's comprehensive reform of data protection, Regulation 2016/679 refers *expressis verbis* to the intellectual property only once, in its recital 63, underlining that "the controller should be able to provide remote access to a secure system which would provide the data subject with direct access to his or her personal data", but also adding that such data subject's prerogative "should not adversely affect the rights or freedoms of others, including trade secrets or intellectual property and in particular the copyright protecting the software". However, this provision is not only a part of non-normative,

²⁰ Certain EU legislative acts concern data protection, but do not have significant impact on the protection of IPRs, like, for example, Directive (EU) 2016/680 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data, *Official Journal* L 119, 04.05.2016, pp. 89-131. Here, the focus will exclusively be on data protection legislation with significant potential consequences for the IPRs protection.

²¹ Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services, *Official Journal* L 108, 24.04.2002, pp. 51-77.

²² Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector, *Official Journal* L 201, 31.07.2002, pp. 37-47.

²³ Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009 amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services, Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector and Regulation (EC) No 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws, *Official Journal* L 337, 18.12.2009, pp. 11-36.

²⁴ See n. 3.

²⁵ European Treaty Series No. 108, 28.01.1981.

²⁶ United Nations General Assembly Resolution 217, proclaimed in Paris on 10 December 1948.

introductory text of Regulation, but it also cannot provide an answer concerning the potential conflict of interests between a data subject and an IPR owner. On the other hand, under Article 23-1(j) of Regulation 2016/679, the rights of data subject can be restricted if it is “a necessary and proportionate measure in a democratic society to safeguard [...] the enforcement of civil law claims”. Consequently, if a civil law claim concerns an IPR, the restriction of data protection might be allowed, though under extremely vague criteria of necessity and proportionality. The fact that Regulation 2016/679 still has not entered into force – and that, consequently, the CJEU did not have the opportunity to interpret its provisions – accentuates the need to refer to the doctrine, existing case-law, as well as to the various preparatory documents. “The enforcement of civil law claims” mentioned by Article 23-1(j) of Regulation 2016/679 clearly necessitates the existence of a civil proceeding concerning an infringement of an IPR. In its judgement in case *Productores de Música de España (Promusicae) v Telefónica de España SAU*²⁷ the Court underlined that “Directive 2002/58 does not preclude the possibility for the Member States of laying down an obligation to disclose personal data in the context of civil proceedings” (para. 54). However, the Court added that “effective protection of industrial property, in particular copyright [...] cannot affect the requirements of the protection of personal data”²⁸ (para. 57). The possible contradiction between these two declarations is more than obvious. If it is possible for the Member States to impose a disclosure of personal data in a civil proceeding, how to do so without affecting the “requirements” of their protection? Which interest will prevail: the legitimate intention to protect privacy or not less legitimate objective to safeguard the IPRs? Some authors have concluded that “the Court attempted to strike a balance between the right to property of intellectual property rights holders and the right to data protection of Internet users” but failed to do so, “instead preferring to delegate this tricky task to national authorities” (Lynskey, 2013, p. 74). Sixteen year after the adoption of the Copyright Harmonisation Directive and one year before the entry into force of General Data Protection Regulation, the EU has still not found a sustainable balance between IPRs and data protection in the online environment.

4. CONCLUSION

Taken separately, the EU legislation related to the protection of IPRs, on the one hand, and data protection, on the other, can be considered as a globally satisfactory regulatory framework, even when it comes to the application of common rules in the context of the challenges imposed by information and communication technologies. However, the legislation on both IPRs and data protection entertain multifaceted relations with other important areas of EU competence, such as competition law, in the perspective of which certain additional uncertainties arise, especially in the online environment. As the analysis of the IPR-related aspects of essentials facilities doctrine has shown, a legitimate and legally guaranteed monopoly constituted by an IPR can only be partially limited in favour of the free competition and not vice versa, but the EU’s supreme jurisdiction has still not elaborated a set of clear and applicable criteria to support the implementation of the existing regulatory framework. In a similar vein, important controversies still remain over the issue of conflict between the protection of moral and/or material interests guaranteed by an IPR and the protection of personal data. Given that it is possible for the Member States to impose a disclosure of personal data in a civil proceeding related to IPRs, a

²⁷ CJEC judgment of 29 January 2008 in case C-275/06, ECLI:EU:C:2008:54.

²⁸ It is particularly important to underline that, in case C-275/06, the language of the proceedings was Spanish. The English translation of paragraph 57 comprises one significant mistake: instead of “**intellectual** property, in particular copyright” (“*de la propiedad intelectual y, en particular, de los derechos de autor*”) the translation mentions **industrial** property. Copyright law does not belong to the industrial property law, but, together with it, to the wider discipline of intellectual property law.

more exhaustive, European definition of the right to data protection of Internet users is still to be found.

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COMPARISON OF RECRUITMENT AND SELECTION PROCESSES IN ENTERPRISES OPERATING IN SLOVAKIA AND SPAIN

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ABSTRACT

National labour markets of today are affected by various factors, mainly by those related to globalization. Rapid advances in technology make enterprises compete for highly skilled and specialized workers. In this regard, enterprises need to adapt their human resource practices to changing national labor market conditions in order to attract and retain high performing employees. Enterprises that are able to anticipate their business needs and their needs for high-skilled and specialized workforce will gain the crucial comparative advantage. Thus, the major role of Human Resource Specialists is to attract and select the right human capital. The main purpose of the paper is to identify differences in recruitment and selection procedures used for a position of a Human Resource Specialist in enterprises operating in Slovakia and Spain. The research sample consisted of forty companies located in the region of Trenčín (Slovakia) and the region of Valencia (Spain). In the paper, the methods of structured interview, literature research method, method of comparative analysis and synthesis were used.

Keywords: *Enterprises, Human Resource Specialist, Recruitment, Region of Trencin, Region of Valencia, Selection*

1. INTRODUCTION

The processes of globalization have had a profound impact on national labour markets. Consequently, enterprises and manpower must be capable of responding quickly to new labour market needs. Individual countries strive to gain a comparative advantage which covers factors such as labour cost, cost of capital, geographic location, natural resources as well as workforce productivity. Having a comparative advantage in the global labour market necessitates innovations and knowledge. Undoubtedly, competitive and knowledge societies need well-qualified, inventive and appropriately trained workforce – human capital – in order to be able to confront and respond with agility and flexibility to demanding challenges within a society. Human capital refers to the “ability of an individual to create new knowledge (innovations)” (Vojtovič, 2009, p. 320). Thus, it is the new knowledge that makes any society grow in economic and social terms. New knowledge means that “it is something new, what distinguishes itself from the old one. It is new not only because knowledge is its driving engine (knowledge economy), neither because it uses innovations (innovative economy), nor because it is network-interconnected (network economy) (Krajňáková, Vojtovič, 2011, p. 144). Karbach and Vojtovič (2014, p. 139) argue that “theoretically, the definition of the new or knowledge economy is usually connected with the process of creation and elaboration of information.” We support the argument by Kordoš and Karbach (2014, p. 653) saying that “globalization, in general, and multinational companies in particular, are important vehicles for the international diffusion of new knowledge through their trading, investment, and competitive strategies”. As new knowledge can be created by competent human capital, we support the argument that “investing in human capital brings about improvement of performance, flexibility, and productivity, and enhances the ability to innovate, which naturally follows from continuous

enhancement of qualification as well as skills and expertise of staff” (Grenčíková, Vojtovič, Gullerová, 2013, p. 42). There are two types of human capital distinguished, i.e. general and specific. Vojtovič and Krajňáková (2014, p. 147) maintain that “universal abilities that are useful in almost all spheres of human activities were identified as the source of general human capital, whereas specific human capital includes such specific knowledge and abilities that are usable only in very concrete and specific group of activities.” Generally, organizations endeavour to hire the best people who are regarded to be critical in gaining a comparative advantage. In order to gain a comparative advantage, organizations need advanced and effective recruitment and selection procedures in place. The fundamental goal of recruitment and selection procedures is to acquire in the most economical manner the quantity and quality of people that are needed to meet the human resource needs of an organization. According to Armstrong (2006, p. 409), there are three stages of recruitment and selection, namely “1) defining requirements – preparing job descriptions and specifications; deciding terms and conditions of employment; 2) attracting candidates – reviewing and evaluating alternative sources of applicants, inside and outside the company, advertising, using agencies and consultants; 3) selecting candidates – sifting applications, interviewing, testing, assessing candidates, assessment centres, offering employment, obtaining references; preparing contracts of employment.” When organizations attract candidates, they choose between internal and external sources, both having their advantages and disadvantages. Internal sources comprise transfers, promotions, and present employees. Promoting an employee from inside an organization can raise morale, and errors made in the selection process can be prevented from happening. Further advantages of internal sources encompass fostering loyalty, avoiding taking quick decisions, cutting the costs associated with training, and fostering self-development among employees. Disadvantages may encompass a limited number of applicants, lack of workforce with the right qualification, favouritism or nepotism. Internal sources of recruitment are, however, frequently used as a source of recruitment for lower positions. On the contrary, organizations use external sources for recruitment to higher posts when existing employees are not available or suitable. Types of external sources include placing advertisements, using the services of employment exchanges, cooperating with institutions of higher education, existing or former employee referral system, job portals, recruitment through social media, recruitment agencies, etc. External sources of recruitment include advantages such as novel and original ideas and/or approaches, reduced costs of training and more applicants to hire from. The drawback of external recruitment is primarily higher costs associated with employee recruitment, which can also be time consuming, and leading to higher turnover, lower employee motivation, etc.

Selection is defined as a process of identifying and hiring job applicants with a great likelihood of success in a job. Applicants engaged should not only meet the job requirements, but also possess the right personal qualities to promote sound relationships among work team members, and be able to think highly of the values followed by an organization (Koubek, 2009). The key purpose of selection is not to assess and take on applicants, but to eliminate those who do not fit the job requirements. On the other hand, Blašková (1998) maintains that employee selection is a process of obtaining information about job applicants in order to determine who should be hired. Employing inappropriate people can mean losing market position of an organization, decreased work production, and possibly lead to the loss of customers and revenue. It is maintained that “selection of the right person for the job at the right time” as well as rational costs represent the essence of human resource development” (Blašková, 1998, p. 66). The nature of selecting candidates varies greatly from organization to organization and from job to job.

There are, however, the following universal selection criteria to be followed: “employing various employee recruitment sources; preferably giving jobs to internal candidates; in-depth candidate assessment; selecting candidates that have the potential being personally developed” (Drábiková, 2008, p. 19).

Selection is regarded as a two-way communication process between an employer and a job candidate. After potential job candidates have been identified, employers have to convince them that it is in their interest to work for them. Conversely, job candidates have to convince the employers that they are the best fit to work for them. Nowadays, employers look for employees with creative skills, common sense, able to take part in managing. They search for employees who are able to make decisions quickly and effectively, who are loyal and energetic, etc. (Blašková, 1998)

There are various techniques used in the process of employee selection, such as application forms which show whether job candidates are suitable or unsuitable for a position in question. Interviews represent another common and frequent selection technique. Several interview techniques are distinguished, such as nondirective interviews, structured interviews, situational interviews, and behaviour description interview. The most frequent interview setup is the individual one, even though there are also some other options, such as panel interviews. Other techniques include psychological tests, for instance intelligence tests which are meant to assess thinking abilities, aptitude tests that are intended to acquire information about skills such as mechanical ability, logic and numerical ability, and manual dexterity. Attainment tests are utilized to assess the job candidate’s depth of knowledge or skills. In addition, there are personality tests employed in the process of employee selection, one of their drawback is, however, their limited validity. Assessment centre is a “special technique to determine whether job candidates are suitable for specific positions, such as managerial positions” (Szarková, 2009, p. 51). Assessment centre comprises several techniques, for instance group exercises, interviews, presentations, examinations and psychometric testing which are employed to evaluate candidates’ personality and aptitudes.

2. PURPOSE AND METHOD

The purpose of paper is to identify differences in recruitment and selection procedures used for a position of a Human Resource Specialist in Slovakia and Spain. The research sample consisted of 40 companies operating in the region of Trenčín (Slovakia) and the region of Valencia (Spain). The companies under research were of different size and operated in distinct sectors. The partial research goals were to:

- identify the techniques of recruitment utilized;
- identify what documents must be supplied by job applicants to companies based in Slovakia and Spain;
- identify what types of testing are used in the selection of job candidates in companies based in Slovakia and Spain;
- establish who the company personnel conducting job interviews are;
- find what types of interview are used;
- identify the number of interview rounds for a new job in companies operating in Slovakia and Spain;
- identify what the key competences and skills of a candidate for the position of a Human Resource Specialist are;
- identify the key qualities that a candidate for the position of Human Resource Specialist should possess.

In the paper, the method of structured interview with Human Resource Specialists working in companies based in the regions of Trenčín and Valencia, literature research method, and methods of comparative analysis and synthesis were employed.

3. RESEARCH FINDINGS

The research sample comprised 40 companies of distinct size based in Slovakia and Spain. Regarding the company size, there were 47% of companies having 10 – 99 employees, 30% of companies with 100 – 499 employees, and 23% of companies with 500 employees and more. Concerning their area of activity, 64% of companies were engaged in service sector, 28% of companies were engaged in trade and 8% of companies in manufacturing. A structured interview was conducted with Human Resource Managers of the respective companies.

The first research question was to find what recruitment techniques are used by companies, whereas more than one option was possible. It was found that companies both in the region of Trenčín (60%) and Valencia (65%) mostly use the Internet as a recruiting tool. The second widely used type of recruitment is advertising in the region of Trenčín (55%) and Employment Exchanges in the region of Valencia (40%). The findings on the recruitment techniques are shown in Table 1.

Table 1 Employee recruitment techniques (Authors' own research, 2016)

	Internet	Advertising	Employee Referrals	Job Agencies	Employment Exchanges	Leaflets	Other
Slovakia	60%	55%	50%	10%	10%	2%	5%
Spain	65%	25%	15%	30%	40%	1%	1%

The following research goal was to identify what documents must be supplied by job applicants to companies based in Slovakia and Spain. The data obtained are listed in Table 2. It was found that all employers required Curricula Vitae, followed by university diploma (58% of companies based in Spain vs 35% of companies located in Slovakia), and personal questionnaires (55% of companies based in Spain vs 29 % of companies located in Slovakia).

Table 2 Written documents to be supplied by job applicants (Authors' own research, 2016)

	CV	University Diploma	Personal Questionnaire	Level Certificate	Cover Letter	Reference Letter	Criminal Record	Other
Slovakia	100%	35%	29%	1%	2%	6%	3%	2%
Spain	100%	58%	55%	2%	6%	8%	8%	6%

Next, the types of testing are used in the selection of job candidates in companies based in Slovakia and Spain were identified. Table 3 lists the data obtained. It follows that interviews represented the most commonly used selection technique for companies both in Slovakia and Spain (100%), testing of teamwork skills (58% of companies based in Spain vs 8% of companies located in Slovakia and psychological tests (26% of companies based in Spain vs 14 % of companies located in Slovakia were used to a lesser extent.

Table 3 Selection techniques used (Authors' own research, 2016)

	Interview	Teamwork skills	Psychological tests	Test of general knowledge	IT skills	Foreign language skills	Other
Slovakia	10%	8%	26%	9%	16%	14%	30%
Spain	10%	58%	14%	6%	7%	5%	3%

The fourth question was to establish who the company personnel conducting job interviews are. As indicated in Table 4, Human Resource professionals were conducting job interviews in 64% of companies in Spain compared to 56% of companies based in Slovakia. In Slovakia, interviews were mostly conducted by company directors (58%) compared to 37% of companies in Spain. The exact data are shown in Table 4.

Table 4 Company personnel conducting job interviews (Authors' own research, 2016)

	HR officer	Comp. Director	Immed. Mng.	Other
Slovakia	56%	58%	32%	22%
Spain	64%	37%	54%	14%

The following question was to find what types of interview are used. The data indicate that all companies conduct the most common one-to-one interview where only the interviewer and the interviewee are present (55% of companies based in Spain vs 45% of companies in Slovakia). This type of interview is followed by panel interview (50% of companies based in Spain vs 30% of companies in Slovakia). The data are shown in Table 5.

Table 5 Types of interview used (Authors' own research, 2016)

	One-to-One	Panel interview	Combined	Group interview
Slovakia	45%	30%	20%	15%
Spain	55%	50%	5%	30%

The sixth question was to identify how many interview rounds are there for the position of a Human Resource Specialist. The results show that companies mostly use one to two rounds of interview to hire an applicant (85% of companies in Slovakia vs 55% of companies in Spain, see Table 6). Multiple employment interview rounds are mostly utilized in case of too many job applicants or a highly demanding job.

Table 6 Number of interview rounds for a new job (Authors' own research, 2016)

	1–2 rounds	2–3 rounds	3 rounds and more
Slovakia	85%	15%	0%
Spain	55%	25%	20%

Next, essential skills and competences required in a candidate for the position of a Human Resource Specialist were identified. At most, three options could be selected by respondents. It was found that companies in the region of Valencia regarded applicant HR-related experience as the most critical asset (85%), followed by social skills (60%) and foreign language proficiency (25%). Similarly, companies operating in the region of Trenčín value experience in the field of HR (65%), followed by foreign language skills (30%) and IT skills (28%). The data are summarized in Table 7.

Table 7 *Essential HR Manager skills and competences (Authors' own research, 2016)*

	HR experience	For. lang. skills	IT skills	Social skills	Degree in HRM
Slovakia	65%	30%	28%	10%	10%
Spain	85%	25%	15%	60%	24%

The last question was to identify the key personal qualities that a candidate for the position of a Human Resource Specialist should have. Companies located in the region of Valencia value primarily job engagement (60%), flexibility (57%) and organized employees (49%). Similarly, companies operating in the region of Trenčín value personal qualities such as job engagement (90%), flexibility (60%) and creativity (35%). The list of key personal qualities can be found in Table 8.

Table 8 *Key personal qualities that HR Managers should have (Authors' own research, 2016)*

	Job engagement	Flexibility	Organization	Creativity	Competitiveness	Friendliness
Slovakia	90%	60%	19%	35%	5%	4%
Spain	60%	57%	49%	12%	39%	37%

4. CONCLUSION

Human Resource Departments are responsible for managing the organizations' people. Technical changes associated with advancements in technology make the role of Human Resource Specialists more demanding and challenging. One of the key functions of Human Resource managers is to build and nurture a pool of good employees in an organization, which begins with recruitment and selection. Labour markets in Spain and Slovakia dispose of an adequate supply of labour, therefore special attention must be paid to the selection of right employees for the right positions. The purpose of paper was to identify and compare the processes, through which companies operating in the region of Trenčín (Slovakia) and the region of Valencia (Spain) recruit and select new employees for the position of a Human Resource Specialist. The research data indicate that the Internet was the mostly used recruitment technique which appeals primarily to the Generation Y or Millennials who are entering the global job market. Since computers, the Internet, social media and the newest technical gadgets are an integrated part of their everyday lives, further research should examine the role of social media and other applications in recruitment. Employment Exchanges that bring into contact job-seekers and job-givers represent a more effective recruitment tool for companies operating in the region of Valencia than those in the Trenčín region. It was confirmed that Curricula Vitae are the most widely used document in selection, particularly in the initial selection process

where it is frequently employed to shortlist external job applicants. A major issue with Curricula Vitae is, however, the big amount of work they generate for Human Resource professionals who need to review them in depth. Nevertheless, Curriculum Vitae data are the key data to look at for companies operating both in the region of Trenčín and Valencia. Companies based in the region of Valencia place higher emphasis on teamwork skills than the companies operating in the region of Trenčín, i.e. applicants who are able to cooperate and solve problems. Teamwork is associated with individuals who are able to contribute their own ideas in an effective manner, individuals who are assertive, responsible and able to give positive and constructive feedback to other team-members. A traditional one-to-one interview was regarded as an effective tool to hire the right people for the position of a Human Resource Specialist by companies operating in the region of Trenčín compared to a panel interview preferred by companies located in the region of Valencia. Panel interviews tend to be used for recruiting employees for higher positions and are a better selection option for the position in question as interviewees can be better assessed from multiple perspectives. The findings also show that employers, whether operating in the region of Trenčín or the region of Valencia prefer candidates having HR-related experience to recent Human Resource graduates. Today, labour markets in both Spain and Slovakia abound with candidates holding a degree. In the past, a degree used to be the decisive factor of getting a job, but due to so many people with a university degree, employers tend to prefer experience to university degree. Thus, in order to make chances of graduate job applicants better, students should undertake a work placement as a part of their courses at universities which would be one of the greatest assets on their CVs. Employee job engagement, which tends to have an impact on employee behavior and level of effort in work-related activities, was found to be one of the key personal characteristics of HR professionals by respondents. Therefore, it can be concluded that organizations should have in place sound recruitment and selection procedures as rehiring and retraining wrong people can be time-consuming and the cost can be extremely high.

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ANALYSIS OF CRITICAL SUCCESS INDICATORS IN ACCELERATION PROGRAMS

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ABSTRACT

Startup accelerators are a phenomenon within enterprises caused by the dynamic startup rate nowadays. There are a few successful companies in this field have a massive impact on younger competitors and startup ecosystems. This publication presents the results of data analysis of different startup accelerators. The research sample was collected according to the value of funding their startups have raised. We analyzed the values of particular parts of accelerators programs and the significance of their influence. This research article is a partial result of three years working with research databases and collecting data about 188 accelerators. The important part of business model are an average amount of investment into startups in program and an average equity share in program graduates, a location, a stage of investment, a sector of investment, a demo day benefit. We compared nonfinancial benefits provided by accelerators such as the average investment, the average share in startups, the type of investment, the sector of investment, the life cycle stage, coworking space, mentoring, demo day organization and tested their mutual. The article results in the list of recommended values for the acceleration program according to the most successful companies. Publication summarizes the significant impacts within the variables according the outputs of the comparative and qualitative analysis.
Keywords: Acceleration Programs, Analysis, Success Indicators.

1. INTRODUCTION

There is a plenty of successful and unsuccessful startups all over the world. Young entrepreneurs who want to establish their own business often decide to set up a startup. Venture capital companies and individual investors offer money to the best projects with a possibility to be scalable and profitable. Accelerators have an important role in a startup ecosystem. Many venture capitalists and business angels put their trust to accelerators and they provide a financial support just to companies which have finished the acceleration program. Startup accelerators are very specific companies with different business rules and system in comparison to other enterprises. We analyzed a research sample of 188 accelerators to identify their business models and critical success indicators. Each accelerator needs a closer specification in terms of projects in its portfolio. Generally focus on Start-ups at the seed stage or Start-ups at the early stage of their life cycle is still a very wide definition. It should be based on founders' experience and background. The accelerator has to define the narrow scope of projects that will be accepted.

2. LITERATURE REVIEW

The term accelerator can determine the organization to which business Start-ups enter and leave it as a group of people who passed through a well-defined and time-bound exercise program. It usually takes from three to six months. At the end of their program Start-up accelerator will

provide a financial support for the implementation of business plans by the Slovak Business Agency definition and take into account the earlier practice of the US accelerator. Provision of capital may occur at the beginning of the acceleration program, which may have different lengths. (SBA, 2014) There are many similar characteristics for a business incubator what is the organization designed to accelerate the growth and the success of starting companies via many ways of business support resources and services such as physical space, coaching, common services, and networking connections. (Roštárová, M. (2015)

According to theoretical studies, there are several pillars of acceleration programs. Some of them are in common with an incubation program, but in this article we consider an incubation program as a part of acceleration program. Mentioned pillars of acceleration are namely the following: founders and their experience, a focus of the program, program's objectives, investment size, an educational program, incubation and a brand of accelerator. Individual elements can further be described in this part of the publication.

Jed D. Christiansen created the list of elements of acceleration program. Mentioned elements are the reasons why Start-up founders apply for a membership in accelerator. He used the scale from 1 to 10 where 1 signified that Start-up founders are not interested in the element at all. On the other hand, 10 signifies that the elements is the most important reason for attending the accelerator program. (Christiansen, J., (2009))

Financial Support and Initial Funding means finances provided by accelerator to Start-up team to cover their basic expenses. The amount of financial support within accelerators differs a lot. Some Start-ups receive their first funding from accelerator. Accelerators usually provide funding up to 50 000 Eur. Christiansen proved that financial support at least important element for the members of acceleration program. (Seed database, (2016))

Product Support is provided by the team of specialists and mentors who are experienced in Start-up product's field. Accelerators and incubators cooperate with two types of mentors: product mentors and business mentors. Nowadays, there are many IT Start-ups and accelerators can use their human resources and experts to create the Minimum Viable Product for example in the form of some software, etc. (Rostarova, M.- Rentkova, K. (2016))

Business Support is provided by mentors and management of accelerators who help Start-ups to create and validate their business model, strengthen their presentation skills of give them constructive feedback on their business plans and ideas. Business support is the second most valuable element in acceleration programs. Start-up founders are often not experienced entrepreneurs, so that they appreciate a guidance.

Brand Connections are the most visible one from accelerator's activities. The biggest accelerators create worldwide networks of institutions, investors, mentors and Start-ups. Start-up teams see the main benefit in acceleration and incubation program in strong connections of accelerator. Many accelerators organize public events where Start-ups presents their ideas to investors from the network. For example Y Combinator where the acceleration program ends with a Start-up presentation to investors at Demo Day. The less number of people know, that Y Combinator records Angel Day too. It is organized in the middle of the acceleration and the purpose of the event is to attract angel investors from the network to support Start-ups as mentors and potential future investors. (Rostarova, M.- Rentkova, K. (2016). Demo day has already transformed to a term which includes all events organized by accelerators and incubators as a benefit for their members. The common goal is to attract investors by startup presentations.

3. RESEARCH DESIGN AND METHODOLOGY

One of Authors is a PhD Candidate and her thesis deals with Start-up accelerators' and incubators' business models. The thesis analyses the business models and programs of existing accelerators. The empirical part of this article will be based on data collected from research databases and statistics analyses of research participants. We use a methods of comparison and statistical analysis in case of program traits of accelerators. The theoretical part of publication presents the results of synthesis and analysis of the latest literature and scientific publications in which the issue of accelerators, their programmes, startups and other companies was analyzed. We analyze data of 188 research accelerators registered in the research platform Crunchbase. The mean of accelerators' existence is 5,28 years. The majority of companies is situated in US, but the research includes 5 multinational accelerators and there are companies of all world continents included.

4. RESULTS

The total number of startup projects that have finished acceleration programs has been identified in the entire research sample. Accelerators supported 35.27 projects on average. Median has a value of 14.5 projects. The total number of supported startups is an important indicator of the success of accelerators, but for the acceleration program and the business model, the number of startups in the accelerator for one year is more accurate and the average is 5.41. We were able to quantify the average investment \$ 35,183 that accelerators put into particular startups. The modus of examined variable was \$ 20,000 and a median of \$ 24,000. The minimum average investment in one project in the program is \$ 3500 and the maximum value of the investment provided as a benefit of acceleration is \$ 250,000.

The amount of investment in individual startups is connected with the variable average accelerator share in particular projects that reached the mean 7.25 percent. The median is almost equal to the mean and has a value of 7 percent while the equity mode is 6 percent per project. A few firms do not invest resources in the exchange for a stake and therefore the minimum value of the variable is 0. The maximum accelerator share in the startup is 30 percent and the standard deviation of 3.70 percent.

The important element of acceleration programs is their length. Accelerators and incubators show the duration of programs in months or weeks. We compared monthly program lengths. The mean was 4.15 months with a standard deviation of 2.57 months. Most companies provide acceleration for 3 months and the median duration of the acceleration program has reached the same value. 107 respondents published the exact duration of the program in research databases with a minimum length of 2 months and a maximum length of 16 months.

60.64 percent of the accelerators surveyed were established in the US. There are 25.53 organizations in Europe. More and more startups are taking place in Asia, but only 7.98 percent of subjects operate in the Asia-Pacific countries. Accelerators in Africa and Australia, and the rest of North America (outside the US) cover 6.38 percent of the research sample. 4.26 percent of institutions operate in India and only 3.19 percent of companies in the sample are active in South America. We considered the representation of locations within the respondents, so we were able to further analyze accelerators operating in the US, North America, Europe, Asia, Australia and Africa.

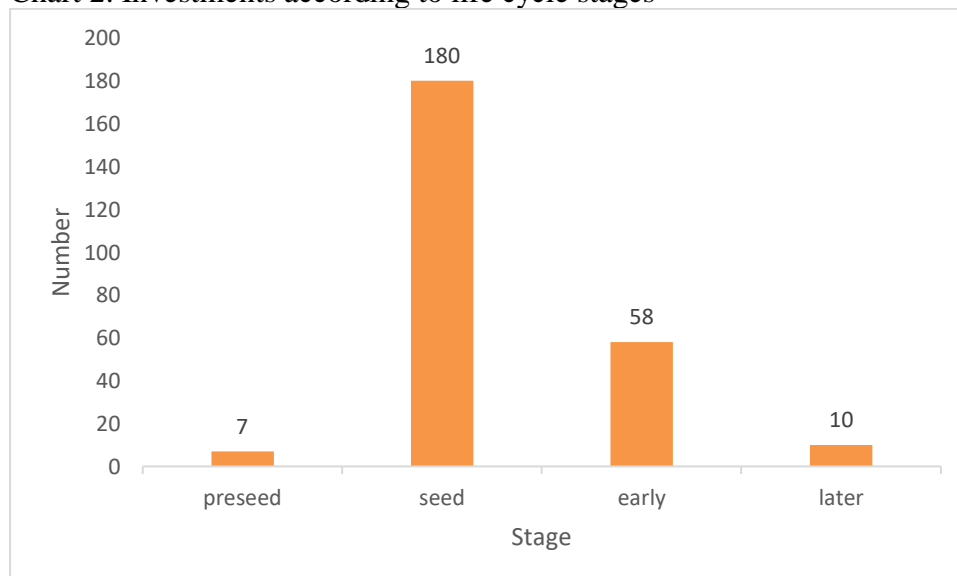
Table 2: Influence of location in US on accelerators

	US	Number	Mean
Existence	no	67	5,24
	yes	110	5,29
Number of supported startups	no	73	16,86
	yes	114	46,72
Number of supported startups per year	no	68	3,02
	yes	111	6,82
Average investment to one startup	no	64	31208,5938
	yes	104	37887,8173
Share in one startup	no	61	8,4570
	yes	82	6,3598
Acceleration length	no	38	3,5789
	yes	74	4,4527

During the significance tests of the location impact on the acceleration program we identified a statistically significant relationship for the number of supported startups and the accelerator share in startups of US companies. Companies operating in Mexico and Canada have joined the accelerator group in North America. We found out a positive impact on the average number of participants in the program 13.72 compared to other companies 4.82. Asia as the accelerator location is positively influenced by the level of average investment in individual projects Asian accelerators finance their startups continuously at \$ 53,750 while other research companies provide an investment of \$ 33,614.

One of the most common criteria for distinguishing between investments in startup businesses is the stage of the project's life cycle. We analyzed the types of investments provided according to the startup lifecycle stage and focused on: preseed stage, seed stage, early stage and later stage. Chart 2 describes the number of accelerators that invest in each stage of the project life cycle.

Chart 2: Investments according to life cycle stages



Almost all research participants invest in the seed stage of the startup life cycle. It is clear from Chart 2 that many accelerators are not investing exclusively in projects at one particular stage. Up to 97.74 percent of the research sample invested in the seed stage. Only 7 accelerators (3.72 percent of the sample) work with the preseed stage and there is no one accelerator specializing exclusively in the preseed investments. The early phase of the project cycle is the second most common type of investment, using 58 entities. Accelerators often offer less investment at the start-up stage of the project, with the possibility of obtaining a higher amount at a later stage of the acceleration program to finance the early stage. 38.85 percent of respondents finance startups in the early stage. Later stage of startup development is not often perceived as an investment opportunity among respondents. 10 accelerators invest in projects at a later stage. Overall, support for the later stage of the cycle is dedicated to 5.32 percent of the research sample. No entrepreneur invests exclusively in projects at a later stage. Up to 49 accelerators invest in startups at two different stages of development at the same time. In seven cases it was a combination of preseed and seed stages. The remaining 42 accelerators invest in the seed/early stage combination. 6 accelerators provide investment in projects in three different stages of the life cycle.

Seed investment as an program criterium does not influence other traits of acceleraton. On the other hand the support of early stage startups has an impact on more examined variables. Table 3 shows the significance of early stage financing influence.

Table 3: Significance of early stage investments and program traits correlation

	Early stage	Number	Mean	Significance
Existence	no	121	5,00	0.101
	yes	57	5,86	
Number of supported startups	no	130	18,15	0.001
	yes	58	73,64	
Number of supported startups per year	no	123	3,50	0,001
	yes	57	9,54	
Average investment to one startup	no	114	28165,2018	0,002
	yes	55	50033,6364	
Share in one startup	no	95	7,2421	0,560
	yes	49	7,2527	
Acceleration length	no	72	4,2292	0,193
	yes	41	4,0000	

The focus on the investment type according to the life cycle stage has a significant impact on the number of accelerated startups and on the volume of the average accelerator investment in one project too. One of the most common features of the acceleration program is the sector of projects that are accepted. Some accelerators do not publish or restrict the area of projects. Sometimes they support project from many sectorsAs part of the analysis, we have specifically devoted our focus to technological projects in general, because many institutions only give the area concerned, or focus on startups in more than 20 areas that are comprised in technology. Therefore, the accelerators do not have a narrowly defined area of their program. In analyzing the impact of the sector of supported projects, we continued to work with areas targeted by 10 or more accelerators from the research sample as following: software, mobile technologies, healthcare and digital technologies. We have analyzed the areas of hardware, education, media, computer games and finance too. The chosen sector of the acceleration program has an impact on the number of projects that go through the program. We defined two variables in the research. Total number of projects and number of projects per year. Highly significant influence

was always found for both variables. The focus on the sectors has a significant positive impact on the number of supported projects. Accelerators with more startups in one program specify in software, hardware, mobile technologies, digital technologies or healthcare. Significant impact (0.014) was measured between projects from the software sector and length of acceleration. If the accelerator works with software startups, its acceleration program is shorter on average by 1.25 months.

70 percent of the respondents offer demo days as one of the startup benefits and 33 companies do not offer that advantage for their projects. We have seen the significant impact of the variable demo day on the number of projects and the percentage of accelerator share in the individual startups. Demo days are costly, but when accelerators support a larger number of projects in one program can be much more effective than one-to-one meetings with investors. Based on the results, we can assume a significant positive impact of the variable demo day on the average number of projects in the accelerator (signification 0.020). Organizers of demo days will accelerate 9 startups per year (mean) while non-organizers will only make 3.5 projects a year. We identified the possibility of negative impact of demo-days on accelerator shares in individual projects (signification 0.001) while among the analyzed groups of respondents the average difference of the share capital is 0.25%.

5. CONSLUSION

This publication analyzed chosen criteria of acceleration. We analysed 188 companies to figure out some significant relationships between the program characteristics. The total number of startup projects that have finished acceleration programs has been identified in the entire research sample. Accelerators supported 35.27 projects on average. The number of startups in the accelerator for one year is more accurate and the mean is 5.41. We were able to quantify the average investment \$ 35,183 that accelerators put into particular startups. The modus of examined variable was \$ 20,000. The average accelerator share in particular projects that reached the mean 7.25 percent. The median is almost equal to the mean and has a value of 7 percent while the equity mode is 6 percent per project. The mean of the acceleration was 4.15 months. Most companies provide acceleration for 3 months. Accelerators situated in the US and North America have a significant relationship with the number of startups which completed the acceleration. Asian accelerators invest more money per one project. Early stage investing has a significant impact on the number of supported startups and on the amount of the average accelerator investment in one project. The selection of the startup sector in the acceleration program affects the number of projects that will finish the program. The focus on the sectors has a significant impact on the number of supported projects in following areas: software, hardware, mobile technologies, digital technologies and healthcare. A significant negative impact (0.014) was also found between projects from the software sector and the acceleration program length of the projects. Statistical tests confirmed the variable demo day influences the number of company projects and the percentage accelerator share of the individual startups.

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APPLICATION OF GLOBAL ECONOMY EFFICIENCY INDICATORS IN ANALYSIS OF REGIONAL INEQUALITY BASED ON THE COUNTY OF SIBENIK-KNIN EXAMPLE

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ABSTRACT

Regardless of the planned polycentric development of the Republic of Croatia, which implies equal development of all regions, one of the key problems of economic policy is still the problem of uneven regional development. The Republic of Croatia is in development terms rather inhomogeneous economic entity, since its counties vary according to attained the level of development but also since there are considerable differences in development levels within each county. The purpose of this paper is to indicate an alternative approach to evaluating developmental position of territorial units in the County of Sibenik-Knin by analysing selected indicators of global economy efficiency. Selected indicators of labour productivity and the economy's capacity to engage available labour force were used. Several indicators of business volume, and labour productivity in the most common economic activities in the County of Sibenik-Knin were also used. Developmental level of the indicated components as the prerequisites to progress and step towards knowledge economy has been thoroughly analysed. Furthermore, developmental position of the County of Sibenik-Knin has been evaluated in relation to the Republic of Croatia's average.

Keywords: *knowledge economy, global economy efficiency, economy's productivity, regional inequality, the County of Sibenik-Knin*

1. INTRODUCTION

The Republic of Croatia is territorially divided into 21 counties. The County of Sibenik-Knin with total surface of 5.670 km² and 109.375 inhabitants represents a medium sized county, regarding the whole country. It has 5 towns and 15 municipalities in its composition and Sibenik is the centre, being the 12th town by size in Croatia and the 4th on the Adriatic (CBS, 2013). With its rich cultural and historical heritage with 290 cultural assets (Ministry of Culture of the Republic of Croatia, 2013), tradition and preserved nature it has distinguished lately as an especially attractive tourist destination.

Regardless of the planned polycentric development of Croatia, which implies equal development of all regions, the reality reveals a completely opposite process: there are still very noticeable differences in development level between certain regions and this issue has been analyzed by growing number of authors (Grcic and Filipic, 2002; Cziraky et al., 2005; Perisic, 2014). Croatia has a very distinct monocentric development while simultaneously planned and desired polycentrism is weakening (Feletar, 2005, p. 168) and this has become almost a regularity of contemporary economic and social development, especially in economically less

developed countries. A prominent example of monocentric development growing stronger is increasing economic and social dominance of the capital city of Zagreb, where 18,4% of population lives (CBS, 2013) and it concentrates approximately 30% of those working in economy and around a third of entrepreneurs or companies that all make more than half of income value and profit which leaves them in control of more than 50% of assets and sources.

In regional planning and development policy evaluating developmental level of territorial units is of vital importance (Cziraky et al., 2005), and in Croatia it is mainly based on development index. Namely, according to regulations from the Law on Regional Development of Croatia (official gazette of RC "Narodne novine" no. 147/14) and Regulation shall on development index (official gazette of RC "Narodne novine" no. 63/10 and 158/13), all units of local and regional self-government are to be divided according to Development index. This index is a composite indicator of development level and it is calculated as the weighted average of the following social and economic indicators: unemployment rate, income per capita, general movements of population and education rate. In accordance to Development index criteria's value counties, towns and municipalities that have the index value less than 75% of Croatia's average are defined as areas with supported or aided status.

Evaluation and classification of all units of local and regional self-government according to development index is conducted every five years in Croatia, the last procedure being conducted at the end of 2013. Out of 20 units of local self-government in the County of Sibenik-Knin then, even 45% had the supported area status. To be more accurate, 25% of local self-government units had development index between 50% and 75% of Croatia's average and 20% of units had development index lower than 50%. The County should reach the level at which its development potentials will be used in the best manner if long-term growth and development are desired. The aim of this paper is to indicate an alternative approach to evaluating developmental position of territorial units using the example of the County of Sibenik-Knin by analysing selected indicators of global economy efficiency. The approach is based on selecting indicators which have been used by Aksentijevic and Jezic in their analysis (2009, pp. 11-28) with certain modifications. The purpose was to include and evaluate development of chosen components which are requirement for development and a step forward to knowledge society and consequently chosen indicators of labour productivity and economy's capability to engage available work force have been used. Several indicators of volume of business indicators i.e. labour productivity in the most common economic activities in the County of Sibenik-Knin have also been used. Furthermore, developmental position of the County of Sibenik-Knin in relation to Croatia's average has been assessed.

2. BASIC CHARACTERISTICS OF POPULATION AND ECONOMIC DEVELOPMENT IN THE COUNTY OF ŠIBENIK-KNIN

Number, gender and educational structure of population are without doubt crucial guidelines of social and economic development. Moreover, they are very significant factors of human resources' competitiveness. Therefore, the analysis begins with considering data on socio-demographic characteristics and economic activity of the population in the County of Sibenik-Knin.

2.1 Socio-demographic characteristics

Population is an extremely valuable resource regardless of the aspect we examine it. Certain at first sight hidden possibilities (and impossibilities) of population are revealed by analysing socio-demographic indicators which can partly help to solve basic economic developmental dilemmas.

Available data enable an insight into several more important components of population "quality". These are primarily: number and tendency of population movement, population's composition according to activity and certain educational characteristics.

The analysis of data from the population Censuses in 2001 and 2011 shows the following trends: in the two intercensal periods the County of Šibenik-Knin measured a decline in total population number of 3,11% (CBS, 2013). From demographic and statistical aspect this decline was primarily influenced by negative migration balance ie negative difference between the number of immigrated and emigrated and to a lesser extent by natural decline.

In 2011 there were 896 newborn children in the County of Šibenik-Knin and 1399 people died (CBS, 2012) which is natural depopulation of 503. "Approximately 65% of the County's territory experiences decline in population number which determines population density polarization and it becomes significantly limiting factor of the County's equal regional, demographic and economic development" (Mecev, 2014, p. 408). Furthermore, among five towns in the County only two of them accomplished demographic growth in the period between 2001 and 2011 (Knin 1,4% and Vodice 10,7%). The remaining three towns had total decline in population number and this demographic decline ranged between 4,04% in Skradin to 12,76% in Drnis. If municipalities are taken into consideration 9 out of 15 had demographic decline the greatest one being in the municipality of Kijevo 21,76% (CBS, 2013).

The trend in age structure of the population marks the process of ageing population. According to the data from the Census in 2011 the average age of the population was 44,1 years which actually positions it as one of the oldest in Croatia, to be precise right after the population of the County of Lika-Senj. In the framework of gender structure a negligible precedence goes to women who make 51% of the population while males make 49%. Considering education and total number of those capable of working and older than 15, stunning 42,55% of population do not have any education or have only finished primary school, 47,35% have secondary education, 9,29% have higher education degree and inconsiderable 0,16% have master's or PhD degrees (CBS, 2013).

To conclude, as distinctly negative socio-demographic characteristics of the County of Šibenik-Knin the following can be asserted:

- low density of population (36,65 inhabitants/km², and on the national level it is 75,71 inhabitants/km²) with continuation of earlier stressed tendencies towards demographic spatial decentralization;
- depopulation of towns (apart from Knin and Vodice) and extinction of nine out of 15 municipalities;
- predominantly old population (average is 44,1 years and on the national level it is 41,7);
- majority of population lives in towns (75%, and 42,26% in Šibenik);
- 51,52% of population is in age group from 20 to 59;

- unfavourable educational structure of the population older than 15 years of age (42,55% of population has no formal education or has only finished primary school education).

2.2 Economic characteristics

The general activity rate of the population in the County of Sibenik-Knin is 42.1 and it is lower than Croatian average (CBS, 2013). It means that only 42 persons out of 100 capable of working are actually available for the labour market. The remaining are inactive, do not contribute to development and the society needs to take care of them. Below average rate of activity is defined primarily by low share of population involved in agriculture, consequences of the war and earlier leaving of economic activity i.e. earlier retirement before the upper working age limit. From the position of the long-term economic County development the share of working contingent in total population actualizes the theme of encouraging entrepreneurship and creating such entrepreneurial environment which will lead to employment growth and general prosperity. The data on main sources of livelihood in the County indicate an alarming situation since the number of those living without any income is the same as those living from their work (each 33%). Those whose pension is the only monthly income follow (29%) and persons who live from social benefits and temporary support (5%) (CBS, 2013). Ageing of population is one of the reasons for this situation followed by abandoning uncompetitive agricultural production, insufficient education level and mostly seasonal tourism. The most represented activities in the County according to the number of employed are manufacturing (16,88%), trade (15,12%) and activities related to providing accommodation, preparation and serving of food (8,19).

To conclude, as highly negative economic characteristics of the County of Sibenik-Knin the following can be stressed:

- low percentage of employed in production;
- high share of population (33%) living without income;
- greater number of retired in relation to working individuals;
- high share (35%) of people older than 45 who are unemployed.

3. RESEARCH METHODOLOGY

Selection of developmental indicators was conditioned by availability of statistical data bases. Announcements and statistical reports of the Central Bureau of Statistics and Croatian Employment Service yearbooks were used as data sources for calculation of indicators. The following indicators were used for the analysis of global economy efficiency in the County of Sibenik-Knin:

- GDP per employee – in the analysis it was calculated by dividing the GDP data in permanent market prices, obtained from statistics of national accounts, with total number of registered workers in companies, crafts, free professions and individual agriculturists. Therefore, GDP was analysed based on registered workers and not on labor force survey since this indicator is perceived as the more "stable and relevant indicator of labor productivity on the level of an economy" (Nestic, 2004, p.62);
- unemployment rate – due to significant oscillations in the number of employed according to surveys registered unemployment issued by the Croatian Employment Service and not survey rate was analysed;
- share of employed in tertiary sector;
- industry's revenue per employee in industrial sector;

- value of construction work per employee in construction;
- number of overnight stays in tourism per bed.

After a thorough review of available data the period between 2006 and 2014 was selected as the reference period. It was presumed that most indicators would have considerably different trends before the start of the recession, and during its duration, and therefore it was important to include several years prior to 2008, which is officially considered as the year the global economic crisis began. 2014 is taken as the last analyzed year, due to lack of recent data at the time when this paper was written. For example, when using data from national accounts, there is a problem in the delay of the final GDP calculation. Although preliminary data, published promptly, are considered quite reliable, a problem may arise in synchronization of accounts after the publication of the final data, which can happen after a few years and which may prove to be impractical. Each of the selected indicators was calculated at the level of the County and the Croatian average, and then their comparative descriptive statistical analysis was made. In order to be able to analyze the trends of individual indicators, for each of them the average rate of change was calculated. The following analysis relates to the calculation of deviations of individual indicators for the County of Sibenik-Knin from their average values for Croatia in each observed year, and collectively for the entire eight-year period.

4. RESEARCH RESULTS AND DISCUSSION

Below the results of descriptive statistical analysis of global economy efficiency for the County of Sibenik-Knin and the Republic of Croatia for the period 2006 – 2014 are indicated.

Table 1: Results of descriptive statistical analysis for global economy efficiency indicators

Indicator	Area	Mean	CoVar	Min	Med	Max
GDP per employee	County of Sibenik-Knin	274,13	6,82	240,91	278,16	294,08
	Republic of Croatia	261,5	11,74	208,3	275,0	287,5
Unemployment rate	County of Sibenik-Knin	21,150	13,28	17,400	20,800	26,500
	Republic of Croatia	16,438	11,85	13,200	17,000	18,900
Share of employed in tertiary sector	County of Sibenik-Knin	71,95	2,04	69,7	71,93	74,17
	Republic of Croatia	65,06	3,03	62,79	64,71	68,71
Industry`s revenue per employee in industrial sector	County of Sibenik-Knin	417,0	16,91	287,4	432,3	504,5
	Republic of Croatia	415,9	18,29	297,4	423,8	505,2
Value of construction work per employee in construction	County of Sibenik-Knin	467,3	42,19	314,8	414,8	935,3
	Republic of Croatia	359,7	8,89	322,5	359,1	409,3
Number of overnight stays in tourism per bed	County of Sibenik-Knin	54,39	17,77	46,78	50,35	74,57
	Republic of Croatia	60,66	8,51	56,57	58,39	71,30

As the first important indicator of overall productivity GDP per employee is analyzed. Although this indicator does not say enough about the structure of growth, i.e. drivers of economy growth, from the data shown in Table 1 can be concluded that in the analyzed period, the County of Sibenik-Knin, on average, had higher GDP per employee than the national level (for 12.63 percent). Variation coefficients of 6.82 and 11.74 both indicate good representativeness of the obtained average.

When it comes to unemployment rates, the analysis shows a poorer development position of the County compared to the national average: the average unemployment rate for the period from 2006 to 2014, in the County of Sibenik-Knin was 21.15%, while at the national level it amounted to 16.44%. The analysis of variation coefficients for both indicators gave satisfactory results (in terms of representativeness of the obtained average indicators). The highest recorded unemployment rate in the County of Sibenik-Knin is significantly higher than the one at the national level - for as much as 7.6 percentage points. This negative variation of the unemployment rate in the County of Sibenik-Knin in relation to the national average lead to at least two conclusions:

- allocation of resources is not optimized in relation to the social structure of the County,
- given the high rates of unemployment, the County is economically uncompetitive compared to the national average.

Analysis of the participation of employees in the tertiary sector shows that more than half of the working population of the Republic of Croatia belongs to the tertiary sector - an average of 65.06% of the working population, up to 68.71%, which was the highest value in the analyzed period. In the case of the County of Sibenik-Knin there is even enhanced presence of the tertiary sector in the sectoral structure of employment in relation to the national average (71.95%), which indicates that there is a distinct tertiarization in structure of employed in the County of Sibenik-Knin.

The analysis of the industry's revenues per employee in the industrial sector in the period from 2006 to 2014 gave similar results at the level of the County and Croatia as a whole (realized revenues at the level of the County are slightly higher).

Analysis of the value of construction work per employee in construction gave somewhat different results. At first glance, the average values show substantial positive deviations of the County from the national average - by as much as 30 percent. However, a detailed descriptive analysis shows that the data on the average value of construction work per employee in the construction of the County of Sibenik-Knin is poorly representative (coefficient of variation is greater than 30 and the range of variation is higher than the average). Namely, efficiency indicators of the economy are influenced by a number of economic and non-economic factors, and therefore in some years may show significant fluctuations in relation to a normal state of economic activity. If we compare only the lowest and median values, it can be concluded that the County of Sibenik-Knin has higher labour productivity in the construction sector than Croatia as a whole.

The last indicator which was analyzed, the number of overnight stays per bed, shows that productivity in tourism of the County is worse than the national average. This data suggests that the tourism potential and resources of the County (primarily its attractive coastal area, cultural heritage, large areas of protected natural heritage and favourable geographical position) are still

modestly used. Since the County of Sibenik-Knin perceives tourism as one of its strategic guidelines of development, considerable effort will be needed to increase productivity in the tourism sector. When analyzing the average deviation of selected indicators of development in the County for the period from 2006 to 2014 in comparison to the Croatian average, it may be concluded that the County of Sibenik-Knin had the largest negative deviation from the Croatian average in terms of unemployment rates. The average deviation is negative with the number of overnight stays in tourism per bed as well. All other components have positive average deviations which mean they have a higher productivity than Croatia as a whole.

Table 2 shows values in the average rate of change for each of the indicators in the period from 2006 to 2014.

Table 2: Average rates of growth/decline of global economy efficiency for the County of Sibenik-Knin and the Croatian average (in %)

Indicator	County of Sibenik-Knin	Croatian average
GDP per employee	+1,25	+4,7
Unemployment rate	+3,14	+0,78
Share of employed in tertiary sector	+0,89	+1,29
Industry`s revenue per employee in industrial sector	-2,97	-2,20
Value of construction work per employee in construction	****	0,92
Number of overnight stays in tourism per bed	+6,85	+3,36

**** The indicator for value of construction work per employee in construction (in 000kn) is not calculated at the level of the County, as anomalous (very high) value was observed which is why the average rate of change would be completely unreliable.

As can be seen from the results shown in Table 2 analysis of the indicators average rate of growth / decline for the researched period gave much less favourable results for the County of Sibenik-Knin than it is the case at the level of the Croatian average. For example, GDP per employee at the level of the County on average had an annual growth of 1.25%, while the growth on the national level was 4.7%.

5. CONCLUSION

Although the previous analysis showed developmental delay of the County in relation to Croatian average with (only) two of the six analyzed components of the global economy efficiency, namely the height of the unemployment rate and the number of overnight stays per bed, the results of analyzing the average rate of change show that for almost all of the analyzed components growth rate is higher / decline rate is lower at the Croatian level. This means that, for example, although the County of Sibenik-Knin in the period from 2006 to 2014 on average had a higher GDP per employee than the national level, the average rate of growth for this indicator is higher at the level of Croatia (3.45 percentage points). If this indicator continues to move towards the observed trend, in the coming years GDP per person employed at the national level will reach the level of the County. Similar conclusions can be made based on analyzing the growth rate in the share of employees in the tertiary sector. The unemployment rate is growing at a higher rate than Croatian level - by as much as 2.36 percentage points. Industry`s revenues per employee in the industrial sector are on average dropping at the level of the County and at the national level in general, but this fall is more pronounced for the County of Sibenik-

Knin (0.77 percentage points). It is encouraging that, although the County of Sibenik-Knin had lower productivity in the tourism sector in relation to the national average the last few years that the county has made very good tourism results have led to the situation that this productivity is growing at a much higher rate than at the level of the Croatian average. Therefore, it is assumed that in the future the trend of this indicator should be much more favourable to the County of Sibenik-Knin than it is now.

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THE EXAMINATION OF THE RELATIONSHIP BETWEEN EXPERIENTIAL MARKETING AND CUSTOMER SATISFACTION AND LOYALTY AS A POSTMODERN MARKETING APPROACH

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ABSTRACT

In recent years, there has been a remarkable increase in the number of commodity and service offered by various firms under the influence of globalization and technological advancements. As a result of the increase in the number of commodity and service-in other words numerous alternative, consumers are currently being exposed to much more options. It is widely accepted that the marketing strategies and policies employed by the different firms play a crucial and efficient role in the choices made by different consumers. It being so, the firms take some initiatives to be able to make themselves distinguishable amongst the countless products. Among these initiatives, one of the approaches towards the postmodern customer is experiential marketing.

This marketing policy is of crucial importance in the way that it enables the firms to comprehend the consumers' experiential correctly, to constitute the accurate and efficient experiential marketing strategies, to maintain the customer loyalty which is provided by customer satisfaction and also ensuring the competitive superiority (Çiçek, 2015). In this work, the relationship between the experiential marketing as a very important and developing postmodern approach and its effects on the consumers which is exhibited by customer loyalty and adherence are to be dealt with.

Keywords: *Customer loyalty, customer satisfaction, experiential marketing, postmodern marketing*

1. INTRODUCTION

Postmodernism, as well as being a criticism to modernism movement, is explained as a movement which cannot be reduced to definitions, and which puts forward the individual who focuses mainly on the symbols (Özdemir, 2007, p.21). In today's postmodern world, it can be

clearly seen that the demands and expectations of the customers or consumers in their priorities have changed. It can also be argued that the new consumer profile which is defined as the postmodern customer cares more about the emotional and symbolic values that the product can offer rather than its functional features, and that they require to be emotionally satisfied and they want the firms to provide them with unforgettable experiences. Experiential marketing approach, which focuses on comprehending the experiences of the customers correctly and not on the functional features or the benefits the product or the service can offer to the customer, is widely accepted as a crucial marketing approach on the subject of maintaining the customer loyalty by means of supplying customer experience (Çiçek, 2015, p.1).

2. POSTMODERN MARKETING AS EXPERIENTIAL MARKETING

The brands which employ the approach of “experiential marketing”, as they are the experience providers, hold the possibility of administrating the customer experiences and also designing the areas on which the customers are to have different experiences on by focusing on the customer experiences rather than the product’s functional features and the benefits it can offer. As a consequence, the brands which provide their customers with various experiences come forward in the competition. Marketing communication is of crucial importance in the framework of experiential marketing approach. It is supposed that, under the influence of the unforgettable experience, the customer will not only remain loyal to the brand but they will also share their positive thoughts about their experience with the people around them, which is what contributes to the increase of the efficiency of the experiential marketing (Genç, 2009, p.xiii).

When the studies about the experiential dimension of the consumption and the effects of emotions on customer behavior is examined, it can be seen that the experiential dimension of the consumption was divided into the different formats as customer behavior and experiential approach in a work by Holbrook and Hirschman (1982) for the first time. The researchers who suggest that the activity of consumption can be practiced not only through the functional benefits but also through experiences of emotions and sentiments conducted the comparison of the traditional approach, which can also be defined as information processing, and experiential approach as in Table 1.

Table following on the next page

Table 1. The Comparison of the Traditional Approach (Information Processing) and Experiential Approach (Altunışık, 2007, p.114; referenced by Genç, 2009, p.44).

Traditional Approach (Information Processing)	Experiential Approach
It perceives the customer as the rational decider who aims to solve the problem and acts in accordance with his/her needs.	It assumes that the customer is a person who has subjective evaluations other than his/her basic needs, who seeks symbolic meanings, cares about the emotional side of the consumption, and who has aesthetic criteria.
The product's or the service's benefits, tangible and objective features are the focus point of the customer.	Subjective and symbolic concepts such as aesthetic finery and sociability are the customer's focus point.
It tends to focus on the product's features that can be defined in oral form.	It tends to focus on the convictions that cannot be expressed in oral form.
It examines the customer reactions by mostly focusing on the source of the message when communicating.	It examines the customer's experiences and emotions by focusing on the message's structure rather than its content.
Financial sources can be taken into consideration for its analysis.	It draws attention to the importance of the time sources subjectively.
It is focused on rational evaluation, problem solutions and weighted on left-lobe activity	It is focused on right-lobe activities where entertainment and sensational features are put forward.
It focuses more on the process of thinking consciously rather than cognitive thinking. It also gives great importance to memory. Direct research methods are employed. In terms of emotions, the emotional reaction is dealt with by simple aspects (such as liking or disliking)	It mainly uses the indirect research methods by focusing not on the cognitive thinking but on the unconscious and on the knowledge that cannot be directly observed. It emphasizes numerous emotional reactions (hatred, horror, annoyance etc).
It mainly aims to obtain information regarding one specific product (brand).	It focuses on the activities related to the usage of the product and takes the whole consumption experience into consideration.
It assumes that the customer's choice depends on the benefits the product can offer.	It has aesthetic values such as entertainment and joy, which are a result of the consumption, as its base when evaluating.

Customer experience takes place as a process of five stages. At the first stage of the process, the customer expectations on consumption are and must be shaped. Shaping of the expectations is greatly influenced by brand prestige, advertisements, person's thoughts on the brand and his/her previous experiences. The second stage is where interaction before the sale takes place. This stage contains all the activities the customers have done until the moment they decide to buy the product. The next stage is the stage of purchasing and it starts with the decision of purchasing and what is accepted as the most important part of the customer experience

actualizes. The fourth stage contains any kind of interaction regarding the consumption of the purchased product or the service. It is the stage where customer experience takes place during the consumption of the product or the service. The fifth and last stage of the customer experience is defined as the evaluation after the experience. In this last stage, the customer compares his/her expectations to his/her experiences. For the next purchase, the first stage of the customer experience is repeated in order to reshape the expectations (Çiçek, 2015, pp.40-41).

3. THE RELATIONSHIP BETWEEN EXPERIENTIAL MARKETING AND CUSTOMER SATISFACTION AND LOYALTY

Customer satisfaction is defined as the evaluation conducted by the customer after purchasing or consuming (İlter, 2009, p.101). As to the customer satisfaction, it is defined as the customer's desire and action of choosing the same brand or satisfying his/her similar needs by preferring the same brand with the usual frequency when he/she has the option to choose between the product or the service (Odabaşı, 2003, p.17).

In traditional approach, where the benefits the product or the service can offer and its tangible and objective features are in the center, consumers are people who attempt to find solutions to their problems and also who make the right decisions in accordance with their desires and expectations. In experiential approach, however, subjective and symbolic concepts such as aesthetics, finery and sociability are given the priority, and consumers are people who make subjective evaluations, care about the emotional side of the consumption and have aesthetic criteria (Genç, 2009, p.44). At the section of evaluating the result, which is the last stage of the process of deciding to purchase, the customer is to make an evaluation stating whether he/she was satisfied or not. At this stage, a comparison between the customers' expectations and the performance they received is conducted. Dissatisfaction will emerge if the purchased product does not meet the expectations of the customer whereas customer satisfaction will be ensured if the product meets the expectations of the customer. The bigger the gap between the expected performance and the received performance, the bigger will be the disappointment and the degree of dissatisfaction (Kotler and Armstrong, 2001, p.197). Firms of various sectors make use of advertisement effectively in order to spark the emotions of their potential or existing customers. For instance, the well-known candy brand Kent enables their customers to feel many kinds of emotions simultaneously such as rejection, sadness, causing sorrow, and showing promise by using the background music, disappointment of the elderly, and their happiness afterwards in their advertisement clips (Odabaşı and Barış, 2007, p. 187).

Customers feel ready to pay the price to the firms which will provide them with enjoyable and unforgettable experiences. For example, the firms who produce coffee seeds earn a certain amount of money per cup. It can also be seen that if the coffee seeds are turned into ground beans and get packaged by another firm and introduced into the market, there will be a noticeable change in the price of the same coffee per cup. Furthermore, if the coffee is consumed at a restaurant or café the price will be even higher as a result of the service expense. Also, in the case of the coffee being consumed at a locality which provides different emotional moments, the customer will consent to pay a much bigger price. Consequently, the price of the unrefined coffee at the start will increase drastically if the customer is provided with an unforgettable experience (Pine and Gilmore, 1999, p.4). At this point, it is proven that how much the experience is unforgettable and the place of consumption play a crucial role in maintaining the customer satisfaction and loyalty.

For instance, the car “New Beetle” manufactured by Volkswagen employed the experiential marketing by recreating its old version. It changed its target customers by attracting them with its unusual design and colors. While its old version was cheap and addressed the middle class workers only, its new version is more expensive and addresses the customers of higher classes. Besides that, at the beginning of the manufacturing process, the ideas and suggestions given by the consumers were taken into consideration and their experiences were valued. However, while the new version was quite a success in America, it did not reach the expected level of success in Europe. The reason behind this is that the advertisements in Europe draw attention merely to the functional and technical features of the cars. Whereas in America, the expected sale success and performance were quickly obtained because factors that address consumer’s emotions were employed in advertisements and campaigns (Schmitt, 2004; referenced by Genç, 2009, p.60). There are various examples of experiential marketing in different places of the world, which brings new emotions to old practices and attracts the customer attention by doing so. For instance, hotels in Las Vegas, one of the world’s leading entertainment centers, use different structures and employ themes such as old Rome or New York City. Walt Disney, on the other hand, gives their customers the chance to experience Western world’s important objects such as pirates, castles of fairy countries, pirate ships and so on (Genç, 2009, p.60). One of the different sectors in which experiential marketing is applied is tourism. Tourism experience in terms of marketing contains the interactional process conducted by customers with their touristic products or brands. Experience of the hotel firms can be explained as following: advertisements, introductory flyers, and web sites before the arrival of the customers, and staff, the services the hotel can offer, the hotel room, decoration, different activities, the location of the hotel, physical factors of the hotel (furniture, floor coverings, lobby, garden etc.) after the arrival. Thus, the firm enables the customers to have memorable knowledge, skills and experiences through sensory, emotional and intellectual methods (Çiçek, 2015, p. 44). At this point, it can be argued that the works of experiential marketing in tourism sector can help maintain the customer loyalty by their wish to have the same service again. One example of the unorthodox ways of intellectual experience application can be given by Microsoft. In accordance with their motto “Where do you want to go today?” the customers were made to think that they can do anything they want depending on the variety of the computers and technological advancements. Microsoft also holds itself responsible for providing the customers with numerous possibilities. It is promised by Microsoft that as long as the consumers set their goals straight, the company can enable them to reach their goals (Özgören, 2013, pp.7-8).

4. CONCLUSION AND EVALUATION

In accordance with the postmodern marketing understanding, the firms who are customer-centered employ strategic and creative ways of marketing in order to maintain the customer satisfaction and loyalty and achieve advantageous superiority in the marketing competition. Being one of the many strategic and creative marketing approaches, experiential marketing holds an important place. It is widely accepted that, in today’s postmodern business world, the application of experiential marketing and also the need for the works that focus on comprehending the customer experiences will increase with each passing day. It is of crucial importance that the consumer’s experiences are understood correctly, and that the proper experiential marketing strategies and policies are formed and are put into practice in order to maintain the customer loyalty. It is quite clear that in this new experiential marketing, which focuses on experience and emotions, while purchasing a product or a service the consumer looks not only for rational and functional benefits but also with unusual experiences that come with the emotional relationship with the product or the service. It is accepted that the emotions and the experiences, suitable for the targeted consumers, which are created before, during and

after the consumption are the new and important focus points of the firms (Genç, 2009, pp.43,50).

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REPORT OF RESEARCH OF CULTURES OF HIGHER EDUCATION INSTITUTIONS BASED ON MULTI-PARADIGM

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ABSTRACT

The objective of the paper is the presentation of research of university culture that illustrates the multi-paradigm understanding of culture of the higher education institutions. The concept of multi-paradigm understanding of culture will be presented, then the results of qualitative research will be analysed. The study is a result of the project of NCN 2014/13/B/HS4/01581, about the development of university culture, at the Jagiellonian University, 2015–2016, and before at University of Social Sciences.

Keywords: *culture of university, HEI culture, academic culture, multi-paradigm culture*

1. INTRODUCTION

A multi-paradigmatic analysis of a higher education institution is an attempt to view organisational culture of a university from the perspective of four paradigms described by G. Burrell and G. Morgan, which have been adapted to meet the requirements of the cultural research in management of the university. The nature of the multidimensional character of organisational culture, made it possible for disproportions and even contradictions to appear in the image of culture emerging within different paradigms [1, 3,4]. The aim of the paper is the presentation of a study of university culture illustrating the multi-paradigm approach to the culture of the higher education institutions.

2. METHODOLOGY

The aim of the research was to create a multi-paradigmatic model of academic culture in higher education institutions in Poland. The model was dynamic, which means that it combined a description with an analysis of the process of changes, typology and methodology of measuring and shaping universities culture. The research project was created after an analysis of the source literature, which indicated a considerable **cognitive gap** in the theory of management sciences in relation to culture. **The cognitive aim** of the research was to create a model of culture management in higher education institutions, being a synthesis of the cultural current and concepts of academic management. An added value and a novelty in the project was the creation of a concept of university culture within Polish higher education, using a multi-paradigmatic approach. Distinguishing features characteristic of the concept of culture, typology and methods for its improvement in higher education institutions in Poland became the basis for further research that can be both international and cross-sectoral. For the purpose of the achievement of complex aims, the **research problem** was formulated: “What are the main characteristics of the organizational cultures of the polish universities?” The methods of research into culture in higher education institutions applied in this project were auto-ethnography and duo-ethnography, which were reflected in in-depth interviews conducted using also participant observation techniques [2,]. The research methodology applied was qualitative as it referred to the rich output of research into culture in management based on the interpretative-symbolic paradigm [3, 19–21]. Duo-ethnography is a relatively new method of anthropological research using the experience of auto-ethnography. It was based on the assumption of reflection of insiders who then engaged in a dialogue and created a narrative together [4, 5].

Within the research carried out, the author, being a participant of the organisations researched, cooperated and held dialogues with five other insiders (one in each of the higher education institutions), developing their case studies.

The research sample used in the comparative analysis of case studies included five Polish higher education institutions. Partners in the duo-ethnography in all three higher education institutions were key persons involved in the functioning of the academic system. In all five higher education institutions series of in-depth interviews were conducted with at least three persons involved in the functioning of universities organizational systems (26 interviews in total). The research was conducted between June 2015 and June 2016 in Poland.

3. RESEARCH RESULTS

A result of the qualitative analysis was an analysis of academic culture of higher education institutions in Poland based on 5 dimensions distinguished through an analysis of the source literature.

1. The essence of culture in a higher education institution,
2. Interpretation of the transformation of universities,
3. Orientation towards entrepreneurship and innovation,
4. The extent of formalisation and bureaucratisation,
5. Management and administration.

The first letters stands for the paradigm identification form interviews: F – functionalism, I – interpretative, R – radical, critical, P – postmodern.

1. The Essence of Culture in a Higher Education Institution

F1. "...university culture is the same as organisational culture, I remember an onion diagram with values in the middle and peels around it, i.e. norms and people"

F3. "...[university culture]... is created around academic values, it was supposed to be in accordance with academic values"

I4. "...‘programming of minds’ of employees, students, graduates, which means a way to understand what a university is..."

F7. "I don't know what a university culture is, it's a difficult question, perhaps it's a type of organisational culture characteristic of higher education institutions"

F11. "in my opinion, a university culture should be, let's say, an improvement culture... this is when we can use the term of quality culture"

F.15. "it can be said that a university culture is a collection of values and norms forming unwritten rules of people's activities in a higher education institution"

F.I.16. “a university culture is the way the university is managed but also meanings attributed by people to... well, different elements of the organisation’s functioning. It seems that culture exists in an objective and subjective way”

I.2. “[UC] is a set of values and meanings created by the university’s participants”

I.5. “a university culture is its core, essence, meaning that people in a given organisation understood and identified themselves with”

I.6. “no one really knew how to understand this culture but I think it’s just a corporate culture of the academic profession, with its own roles, phobias and so on”

I.F.11. “[UC] the ethos of the university co-created by people believing in their mission, which corresponds with this quality”

I.14 “I think this is the identification of the organisation’s participants with common academic values and behaviour that corresponds with it”

C.8. “university culture should reflect the highest possible standards, however, it’s not so easy because our education and creative work were less and less frequently connected with improvement, while more and more with settlements”

C.12. “[UC] is a set of values and norms which we, according to the academic spirit, should treat critically, this criticism is the heart of a university”

C.13. “perhaps we lacked [UC] a bit, academic values used to be synonymous with reliability”

P.8. “culture in general is ephemeral, why would this case [UC] be different. We don’t know what to understand as culture, there were so many meanings that it’s an ambiguous category... as it’s usually the case with humanities”

P.C.F16. “...like postmodernists: the metaphors of root, Panopticon, and so on. Perhaps a system of putting pressure through values, value management, so to speak”

C.19. “...than a system where you have to wear a transparent bag and the most basic books are locked in warehouses and you only get them on the following day”

F.21. “...it’s a kind of set of norms, rules that shape internal and external relationships of a higher education institution, of course, they change over time...”

P.22. “...if there were not conflict groups, groups of opposing interests, there were no problems, but you can’t see this here”

I.24. “...there were those meetings of vice-chancellors, colleagues, you know, you lived and breathed this, and this became the domain of not only our university, according to different estimates, up to 30-40% of academics got involved. Others found fulfilment elsewhere, some wanted the university to pay their social security contributions”

I.26. “...particularly that the university has become more heterogeneous.”

2. Interpretation of the Transformation of Universities

F.1. "...universities resemble business organisations more and more, but it's similar in the case of other public sector organisations, it's enough to look at hospitals, at least in other countries"

F4. "...we're going towards a diversification of the offer... I think that more and more universities will offer market products... this is a survival method used particularly by private schools... otherwise, most of them will collapse"

F.I.7. "...it's difficult to foresee the directions of changes... the market has become very turbulent... a constant direction has become an increase in competition and, in general, complications in education"

I.F11. "changes turned out to be revolutionary... far-reaching... deepening the complexity... if the main tendencies were to be indicated, perhaps innovation... all those MOOCs and e-learning caused changes"

F.15. "the direction of changes is now the application of more and more effective management methods... or perhaps even more broadly the concepts of management, as it wasn't only about quality management... marketing, strategy and accounting are now applied more and more frequently"

C.16. "the directions of changes weren't too optimistic to us... we'll be treated as business employees to a greater extent... this means an introduction of incentive schemes... variable remuneration, in a word, growing uncertainty"

C.8. "I don't want to exaggerate but it seems that the level can't get any lower... the tendency of changes here should go towards a far-reaching change of the rules of the game... universities should be open but also demanding... what I mean here is selectivity"

C.F.10. "the tendency is the use of new strategies, we plan, we analyse... However, I doubt whether this will help the university to fulfil its mission better... and I don't mean any sophisticated one... I just mean decent studies and education"

C.12. "without revolutionary activities we won't accomplish much... At the moment, universities are more passive, they've started to lose the market compared with business organisations..."

C.13. "the world of good higher education institutions started to accelerate, while we were moving at a turtle's pace. It's not only the USA or the Union but also China, Asia, and we were left behind..."

C.8. "I think that an alarming direction of changes is the brain drain, which is even double. Generally, people became less eager to work as academics because this became less attractive. It's even worse here... and now this crisis of values of higher education might lead to degeneration"

P.I.10. "directions of changes of universities reflect the tendencies of shaping the 'society of risk' or perhaps even the 'culture of risk'... many options remain open... it might happen that higher education institutions will gain significance but it also might be the other way round..."

P.F.I.16. “one can outline some directions of the shaping of universities: definitely orientation towards knowledge and practice but I don’t dare to guess where this is going... it’s a great unknown”

F.21. “...our university offers more and more majors, we’re constantly broadening our offer, this is probably the future...”

3. Orientation Towards Entrepreneurship and Innovation

F1. “...definitely... we had an incubator and functioned within a new technology cluster, also with IBM and Dell, we introduced individual majors, we invested in new technologies... generally, orientation towards entrepreneurship prevailed”

F.C11. “...we should be more enterprising, although offices of careers, the academic incubator and co-operation with, as you now call it, external stakeholders have moved forward”

F16. “entrepreneurship went hand in hand with innovation, in the new strategy it was clearly described as an aim... there was orientation”

I.C.2. “it’s a question of people’s attitudes and I’d say in our case they were rather cautious... perhaps it’s the nature of humanities but I’d say that our department’s become enterprising”

C.F6. “Entrepreneurship should develop at universities but I guess we were too conservative for that... the same goes for innovation”

I.9. “it’s difficult for me to say... we should be compared with other universities.”

I.11. “I’d rather call it creativity and innovation and I think universities have turned out to be places where creative ideas were produced and developed, and if they were transferred to business that’s fine, this is the ancillary function of universities...”

C.14 “academic character and entrepreneurship rarely go hand in hand and, unfortunately, this was also the case at our university”

C.13. “it’s rather a question of fashion the ministry followed, and, of course, PKA, they, as you well know, have always been overzealous”

F.C8. “entrepreneurship is today a magic word, very popular also here... incubators, innovation, internships and practical training for students, cooperation with graduates... innovation, we were evaluated in this regard... perhaps even to a too great extent”

C.10. “the authorities said we were enterprising, so I believe them... I can’t really see [innovation]... well, perhaps apart from the innovative cost cutting. For example, half the classes online for half the money”

F.21. “without orientation towards innovation and entrepreneurship we wouldn’t be on the market. For quite a few years, we’ve had a Business Incubator, a Student Career Office, we cooperated with the largest companies and organisations in the region and in Poland...”

F.23. "...we engaged business people to conduct classes"

F.22. "...it was difficult for business representatives to undertake to such regular meetings, 2 or 4 hours a week, so we conducted a few hours, a set of classes, and then they were more willing to do this"

F.24. "...in different departments, we had a few research teams, consisting of a few people, which were very innovative and served as tractive force."

I.26. "...the concept of entrepreneurship can be manifested on the institutional, departmental or individual level. In the case of the individual level we expected employees to be enterprising, meaning they would manage, apply for grants"

4. The Extent of Formalisation and Bureaucratisation

F1. "...This is an example of a strongly formalised system where more and more documentation appeared... some said that, for example, the quality system became very elaborate and many elements were redundant... still, if you compare it with the solutions from ten years ago, we now have control of many areas of education and research, such as students' opinions, the quality of theses..."

F.C.3. "...to a certain extent formalisation was necessary, thanks to this legitimisation of authority was possible... bureaucratisation was growing, particularly in the area of finances and project settlement... and everything required consent, from a business trip to conferences and publications, this was too detailed"

C.11. "excessive bureaucratisation, hindering entrepreneurship and innovation, which was not our invention but a result of those detailed regulations, someone said that the Higher Education Act is the operating manual of higher education institutions"

C.K.15. "you have to look for balance between flexibility and formalization, it seems to me that we've reached such dynamic balance... sometimes there might be too much documentation of studies, such as those NCN, NCBiR, and even the statutory ones"

F16. "I have experience from the States, where the system seems so liberal but documentation, at least regarding quality, is equally elaborate and everyone complains as much... I don't really see this bureaucratisation or let's say that our university is not very bureaucratized for a public unit"

C.5. "bureaucracy reproduced itself, it's obvious feedback, our department imposed more and more requirements, administration and HR department had to comply with them and that's how it goes"

I.6. "formalisation is a manifestation of a public organisation culture, it will always be greater than in business... bureaucratisation also serves an ordering function..."

I.9. "bureaucracy appeared here as a response to an increase in the complexity of the environment... parametrisation requires ISBNs and copies of texts, we all collected them but it was governed by the Ministry of Education"

C.I.11. “formalisation should be limited to the necessary minimum, whereas at my university the authorities stimulated its development... bureaucratisation was mainly present in people’s minds, and I don’t only mean administration”

F.C.14. “...formalisation is a function of management, there have to be resolutions and orders because that’s the division of power... bureaucratisation became a real threat, so we gave more and more power to the hands of bureaucrats.”

C.8. “a maze of internal and external regulations overshadowed academic and educational problems, this is what we look like”

C.10. “formalised, conservative and perhaps even bureaucratic culture is one of the characteristics of contemporary universities, in this context mine is quite but not extremely ossified”

C.12. “yes, formalisation and bureaucratisation had the form of symbolic violence, this was a kind of hidden control that served the extension of power and, in consequence, the freedom of research and education was appropriated to the benefit of rationed projects”

C.13. “at this university, papers were produced as they were needed and when required by the ministry... formalisation was poor... it’s difficult to speak of bureaucracy, in fact, compared with the requirements the administration was too small... I recently tried to get help in planning a budget for NCN and it was impossible because those ladies had so much work before other applications”

P.8. “bureaucracy is a kind of an organisational paradox of this university. Seemingly, there’s creativity but on the other hand ossified structures”

C.P.10. “It’s the Kafkaesque world as if taken from *The Trial*, we discover new bottoms, literal bottoms of these bureaucratic procedures... where’s the sense of it? It’s gone”

F.C.21. “...there were bureaucracy and formalisation because this was required by the authorities, but we were also flexible, you know...”

F.22. “...Work conditions and principles were clearly determined. If someone didn’t do a doctorate or a post-doctoral degree they would have to leave”

C.24. “...bureaucracy started bothering officers, deans, deputy deans, department heads, vice-chancellors.”

C.26. “...To a large extent we’ve become a bureaucratic organisation.”

5. Management and Administration

F1. “...of course, some of our vice-chancellors, deputy vice-chancellors, deans, institute and department heads were university managers... the administration expanded and its prerogatives extended, also in the area of quality management, and this is a constant tendency”

F11. “universities got professionalised, professional administration appeared, and the managerial staff had to have some aptitude for managing people”

F.15. “a natural tendency was a growth in requirements concerning managerial competencies among the university’s authorities and administration”

F6. “it’s hard to say, compared with a company, we’re far from such involvement and role of managers... depending how you understand this administration, I see its role as limited, perhaps qualified administration should grow”

C.I.11. “neither managers nor administration were able to understand the spirit of the university, which was far from the instrumental mind of the world of business... this is why the growing role of managers and administration worries me, I’m afraid the university might be taken over by business”

P.C.12. “Managers were involved, or rather academics became managers when they seized power... administration was like autopoiesis, it reproduced itself”

C.13. “well, managers and administration in quality, this was particularly widespread and was often harmful to the university”

C.8. “What would be the power of a manager at a university? Illusory, there’s no comparison with a corporation”

C.10. “managers and the administration are something we’re facing, it’s already happened at British and Dutch universities, and it’s happening in many other countries... they will seize power and this will be the end of the academic tradition”

4. CONCLUSION

It is possible to present the university culture from the perspective of four paradigms which can be used by the respondents in a variety of ways. Model ways of understanding academic and university culture have been established, a synthetic presentation of these paradigms can be found in the following table.

Table 1. A synthetic comparison of paradigms of culture in higher education institutions
(Table ends on the next page)

Paradigm Criterion	Functionalist	Interpretative-symbolic	Critical	Postmodern
1. The essence of culture in a higher education institution	Homogeneous organisational culture	Heterogeneous organisational identity consisting of the stakeholders’ subcultures	Cultural patterns enforced by stakeholders wielding power	“Language-game” combining a multitude of collective meanings of stakeholders
2. Interpretation of the transformation of universities	The dominant trend is an increase in competitiveness,	The dominant trend is an increase in the complexity and	The dominant trend is an increase in oppressiveness	The dominant trend is an increase in

	entrepreneurship and innovation	the multitude of interpretations	and manipulation in the organisation	uncertainty and risk
3. Orientation towards entrepreneurship and innovation	Usually high, identified with improvement	Less significant, rather identified with the basics	The negative side of entrepreneurship (social control)	Entrepreneurship and innovation are interpreted as "language-games", metaphors and glosses
4. The extent of formalisation and bureaucratisation	Proposed formalisation of management processes	Formalisation and bureaucratisation understood from the perspective of cultural processes	Excessive formalisation and bureaucratisation of universities are criticised	Formalisation and bureaucratisation understood as paradoxes of a higher education institution
5. Management and administration	Significance of administration is growing	Overestimated administration and management enforced by the authorities	The role is growing as it is an element of the oligarchisation of universities	Projections of power and social games forming universities

Source: Own work.

A very clear trend to reinforce the radical thinking of modern universities has been the diagnosis of the increase in bureaucratization and formalization in the past decades. While academic culture was seen as deepening the pursuit of increasingly detailed regulation of academic life, many respondents observed a growing tendency to regulate education and research. Such changes were usually judged negatively by the respondents who regarded them as unnecessary, putting additional work on teachers and researchers, giving them less time for the implementation of the university mission. Respondents have noted increasing criticism of bureaucratization, enforced by governmental agencies as well as EU regulations (the "bureaucratization" of the Bologna process). The respondents have repeatedly criticized several a number of university culture aspects, such as the growing number of responsibilities and documentation due to the implementation of quality systems, parametrization and standardization of research activities, and a systematic evaluation of didactic and research activities based on credits/points assigned. In 2016, the Ministry of Science and Higher Education brought together the proposals to simplify the legislation and attempted to reduce the number and complexity of laws. Simultaneously, the drafting of acts concerning higher education was made possible by awarding grants to teams under the competition procedure. The issue of the effectiveness of such solutions is open, which is related to legislative and administrative changes as well as the ability to absorb such solutions by academic organizations and their staff. As a consequence, scepticism in Polish universities concerning the application of managerial methods increased. Within the framework of functionalist trend, they were regarded as necessary, although their expansion further on was seen as a subject for a debate.

According to the interpretative-symbolic paradigm, methods of quality management as well as other standardised management tools, were described as rationalisations of limited effectiveness.

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THE CONCEPT OF MULTI-PARADIGM UNDERSTANDING OF CULTURES OF HIGHER EDUCATION INSTITUTIONS

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ABSTRACT

The objective of the paper is the presentation of multi-paradigm understanding of culture of the higher education institutions. The concept of multi-paradigm understanding of culture is a result of the project of NCN 2014/13/B/HS4/01581, about the development of university culture, done at the Jagiellonian University, 2015–2016, and before at University of Social Sciences.

Keywords: *culture of university, HEI culture, academic culture, multi-paradigm culture*

1. INTRODUCTION

A multi-paradigmatic analysis is thus an attempt to view organisational culture from the perspective of four paradigms described by G. Burrell and G. Morgan, modified for the purpose of cultural research in management of the university. Due to the multidimensionality of organisational culture, disproportion or even contradictions in the image of culture emerging within different paradigms turned out to be possible [1].

The objective of the paper is the presentation of concept of university culture that illustrates the multi-paradigm understanding of culture of the higher education institutions. The results of research of HEI culture in Poland will be presented in second paper. The study is a result of the project of NCN 2014/13/B/HS4/01581, about the development of university culture, at the Jagiellonian University, 2015–2016.

2. FOUR PARADIGMS OF HEI CULTURES

The epistemological and methodological point of departure for research into the organisational identity of universities was the adoption of a concept of culture paradigms allowing for a multi-dimensional analysis of the phenomenon of academic cultures in higher education institutions (the so-called multi-paradigmatic approach or a multi-paradigmatic analysis) [2]. In the contemporary discourse of social sciences, the concept of Linda Smircich and Gibson Burrell and Gareth Morgan proved to be cognitively appropriate, which is why it was used by the author of this monograph. One can distinguish three ways of understanding and studying organisational culture within it: functionalism, the interpretative-symbolic paradigm, and the critical current [1–3]. The paradigms established methodological framework that, with the epistemological approach and the application of research triangulation, allowed to combine qualitative and quantitative methods.

The research into changes of academic cultures could be identified based on the epistemological concept of paradigms in social sciences [1, 2]. The evolution of the idea of academic cultures initially took place within the interpretative-symbolic paradigm, and then within functionalist and critical paradigms. The interpretative-symbolic paradigm could originally serve as the basis for understanding academic culture, as universities had always been managed collectively, intuitively and in the spirit of internalised values. In this regard, universities were not explicitly controlled and managed organisations where management tools were used but rather organic cultures based on academic identity with a rooted, traditional governance system. From the functionalist perspective, organisational culture was understood as an element of the organisational system and a dependent variable that could be effectively controlled. This meant the use of concepts and methods of new public management within the management of

universities, drawn from the theory of management sciences and concerning: strategic management, budgeting and financial controlling as well as management of quality, human resources, information, processes and projects [4]. The functionalist approach assuming an increase in organisational effectiveness, full control of the management process, and instrumentalism of change oriented towards cost-effectiveness became a part of the universal transformation of the higher education sector all over the world in relation to the popularisation and marketing of higher education. A response to the extent and fast pace of this change was the development of a critical paradigm which had been long-established in social sciences. Drawing on the works of the Frankfurt school, neo-Marxism, radical feminism, and postmodernism, the researchers of the Critical Management Studies, Critical Management Education and Critical Pedagogy created a paradigm in opposition to functionalism [5]. A foundation for the critical current became opposing the exploitation of people and culture, characteristic of the functionalist paradigm. In the 1980s, researchers such as Hugh Willmott, Matts Alvesson, Martin Parker, Linda Smircich, Henry Giroux and many others described the cultural change taking place as the expansion of neoliberalism, often illustrating it with research into the transformation of higher education institutions [6]. The edge of criticism covered the following aspects of the academic culture transformation:

- A departure from the universalist ethos of science towards corporate science [7],
- A departure from treating education as public good towards private good [8],
- A transformation of university management based on business and managerial patterns [9],
- The abandonment of a culture of communalism, trust and cooperation, and the development of a culture of control, evidence and effectiveness [10],
- A shift from the humanist to the neoliberal orientation in the approach to human resources management at universities [11],
- Standardisation and bureaucratisation of the modern university management [12],
- The abandonment of a participatory and collegial decision-making model of traditional universities [13],
- Uncontrolled privatisation of higher education, accompanied by the lowering of the education quality and the draining of resources from the public sector [14].

Critical approaches generated many studies analysing negative or even pathological effects of the introduction of neoliberal reforms [15]. Researchers of the dominant functionalist current responded by indicating economic benefits of the neoliberal transformation, which took place on the mezzo- and micro-scale thanks to the introduction of management concepts and methods. A significant aspect of this change was drawing attention to the necessity to adapt management methods to the specific character of higher education institutions [16].

A paradigm that was located between functionalism and the critical current became the interpretative-symbolic perspective mostly drawn from the research of cultural anthropology and organisational sociology [17]. The transformation of academic cultures taking place was perceived as a change of collective notions, perceptions, meanings and interpretations of stakeholders functioning at universities and around them. Anthropological research into the transformation of individual, professional and organisational identities of the academic staff and universities illustrated the change in the ways of understanding universities that occurred over the last decades [18].

Thus, the contemporary discourse on the transformation of universities and academic culture offers three paradigms of different assumptions, which provided different visions of the changes taking place.

3. CONCLUSION

A result of the qualitative analysis was an analysis of academic culture of higher education institutions in Poland based on 5 dimensions distinguished through an analysis of the source literature.

1. The essence of culture in a higher education institution,
2. Interpretation of the transformation of universities,
3. Orientation towards entrepreneurship and innovation,
4. The extent of formalisation and bureaucratisation,
5. Management and administration.

University culture in a higher education institution can be presented from the perspective of four paradigms used by the respondents in different ways¹. They form model ways of understanding academic and university culture, an attempt at a synthesis of which can be found in the table below.

Table 1. A synthetic comparison of paradigms of culture in higher education institutions

Paradigm Criterion	Functionalist	Interpretative-symbolic	Critical	Postmodern
1. The essence of culture in a higher education institution	Homogeneous organisational culture	Heterogeneous organisational identity consisting of the stakeholders' subcultures	Cultural patterns enforced by stakeholders wielding power	"Language-game" combining a multitude of collective meanings of stakeholders
2. Interpretation of the transformation of universities	The dominant trend is an increase in competitiveness, entrepreneurship and innovation	The dominant trend is an increase in the complexity and the multitude of interpretations	The dominant trend is an increase in oppressiveness and manipulation in the organisation	The dominant trend is an increase in uncertainty and risk
3. Orientation towards entrepreneurship and innovation	Usually high, identified with improvement	Less significant, rather identified with the basics	The negative side of entrepreneurship (social control)	Entrepreneurship and innovation are interpreted as "language-games", metaphors and glosses
4. The extent of formalisation and bureaucratisation	Proposed formalisation of management processes	Formalisation and bureaucratisation understood from the perspective of cultural processes	Excessive formalisation and bureaucratisation of universities are criticised	Formalisation and bureaucratisation understood as paradoxes of a higher education institution
5. Management and administration	Significance of administration is growing	Overestimated administration and management	The role is growing as it is an element of the	Projections of power and social games forming universities

¹ Ł. Sułkowski, (eds.), *Management and Culture of the University*, Peter Lang International, 2016.

		enforced by the authorities	oligarchisation of universities
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Source: Own work.

A very clear tendency enhancing radical thinking about modern universities was the diagnosis concerning an increase in bureaucratisation and formalisation over the last decades. Academic culture was perceived as deepening striving after more and more detailed regulation of the academic life. At the same time, many respondents saw a growing tendency towards the regulation of education and research activity. Such changes were usually assessed by the respondents negatively as redundant, causing additional work and drawing teachers and researchers away from the implementation of the university mission. The respondents noted the growing criticism of bureaucratisation, mostly treated as enforced by the Ministry of Science and Higher Education and accreditation agency, but also as a result of the EU conditions (the “Bologna process” bureaucratisation), as well as the “self-reproduction” of bureaucratisation within universities. In consequence, the growing criticism of bureaucratisation led to an increase in the significance of the critical current in didactics and pedagogy. Respondents repeatedly criticised several aspects of the university culture: an increasing number of duties and documentation resulting from the development of the quality system, parametrisation and standardisation of the research activity, and the point system for the assessment of teaching and research activity. The expected response to the bureaucratisation of the Polish higher education system is supposed to be the “debureaucratisation” on the central level. In 2016, the Ministry of Science and Higher Education collected environmental proposals for the simplification of regulations and made an attempt at decreasing the number and complexity of regulations. At the same time, it offered a possibility to develop draft acts on higher education through awarding grants for the drawing up of such drafts to teams selected as part of the competition procedure. The question of the effectiveness of such solutions remains open, and it is connected with both legislative and administrative changes and the absorption of these solutions by academic organisations and their employees.

A consequence of these changes was an increase in scepticism in Polish higher education institutions concerning the point of applying managerial methods at universities. Within the functionalist current, they were considered to be necessary, although their further expansion was perceived as debatable. Within the interpretative-symbolic paradigm, quality management methods and other standardised management tools, were described as rationalisations of limited effectiveness.

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SOCIAL BUSINESS: A RESPONSE TO MARKET FAILURE

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ABSTRACT

Since the collapse of the Soviet Union in 1991, the market economy has spread to the planet. It has taken root in China, Southeast Asia, most of Latin America, Eastern Europe and even the former Soviet Union. There are many things that the markets do extraordinarily well. Countries with long experience of the capitalist system - Western Europe and North America - have great wealth. They are also the melting pot of remarkable technological innovations, scientific discoveries, and educational and social progress. The emergence of modern capitalism three hundred years ago made possible material progress of unprecedented magnitude. Today, however, almost a generation after the fall of the Soviet Union, a form of disappointment seems to be taking hold. Capitalism is certainly prosperous. Economic activity continues to grow, world trade is exploding, multinational enterprises are spreading in the developing world as in the former Soviet bloc, technological advances are multiplying. But not everyone benefits. The distribution of world income confirms this: 94% of the world's income comes to 40% of the population, while the remaining 60% must live with only 6% of world income. Half of humanity lives on \$ 2 a day or less; Nearly one billion people live on less than \$ 1 a day.

Poverty is not uniformly distributed on the surface of the globe: some regions suffer from its worst effects. In sub-Saharan Africa, South Asia and Latin America, hundreds of millions of poor struggle to survive. Periodic disasters, such as the tsunami which devastated the regions around the Indian Ocean in 2004, continue to kill hundreds of thousands of poor and vulnerable people. The gap between the North and the South, between the richest and the rest, has widened. Some countries have, however, paid a high price for their economic success over the past three decades. Since China embarked on economic reforms in the late 1970s, it has grown rapidly; According to the World Bank, more than 400 million Chinese people have emerged from poverty. As a result, India has become the nation with the largest poor population, even though China has a larger global population.

Keywords: *Market, Social Business*

1. INTRODUCTION

But these economic advances have been accompanied by worsening social problems. Obsessed by this race to growth, the Chinese authorities looked away when companies polluted water and air. Moreover, despite the improvement of the plight of many poor people, the distance between the haves and have-nots has increased. Measured by indicators like the Gini index, the inequality of income distribution is higher in China than in India. Even in the United States, which has the reputation of being the richest country in the world, social progress has been disappointing. After two decades of slow growth, the number of people living below the poverty line has increased in recent years. Some 47 million people, or nearly one-sixth of the population, do not have health insurance and have difficulty obtaining basic medical care. After the end of the Cold War, many hoped to receive "peace dividends": defense spending could have decreased in favor of funding education and medical programs. But since September 11, 2001,

the US government has concentrated its resources on military action and security measures, to the detriment of the poor. These problems have not gone unnoticed. At the beginning of the new millennium, the whole world got mobilized to respond. In 2000, world leaders at the United Nations pledged, among other goals, to reduce poverty by half before 2015. However, these objectives were not achieved. Now that we are in the middle of 2017, we can confirm that the results are disappointing.

What's wrong ? In a world where economic liberalism hardly knows any alternative, why do the free markets leave so many people aside? When some nations are on the road to greater prosperity, why is it not the case for much of the world?

These questions have pushed social scientists to sketch paths completely unrecognized before. Many have tried to put the package on the role that businesses can play in the process of poverty reduction through a process of empowering capital holders with respect to the various ills that people face.

2. CSR OR A NEW APPROACH TO POVERTY REDUCTION

The call for corporate social responsibility was another response to the persistence of global poverty and other social ills. NGOs, social activists and politicians have pressured businesses to change their practices in employment, environment, product quality, pricing and fair trade. Many companies have responded positively. Not so long ago, many executives managed their business without worrying about public opinion. Their companies exploited workers, polluted the environment, trafficked their products and defrauded, all in the name of profit. In most developed countries, this time is over. Government regulation is one of the causes of this development; The corporate social responsibility movement is another one.

Millions of people are to be better informed than ever about good and bad business practices. Newspapers, magazines, television, radio and the Internet conduct the investigation and draw attention to their misdeeds. Many customers will refrain from buying the products of a company whose business is detrimental to a community. As a result, most companies passionately want to acquire a positive image. This has given a strong impulse to socially responsible companies.

Two categories of socially responsible companies can be distinguished. The first category includes "weak socially responsible enterprises" whose creed is: "Do not harm people or the planet (unless it means losing profit). Companies that practice social responsibility in its weak form are supposed to avoid marketing defective products, dumping waste in the wild or corrupting public officials.

The second category includes "strong socially responsible enterprises". They are committed to "doing good to individuals and the planet (as long as we can do so without renouncing profit"). Companies practice social responsibility in its strong form actively seek outlets to exert a positive influence while engaging in their core business. They work for example in the development of ecological production and practices, provide their employees with educational opportunities and health services, support initiatives to improve the transparency and

impartiality of public regulation of economic activity. Is social responsibility a force that encourages business leaders to positively change their practices? Is that the mechanism we are looking for, the instrument that would solve some of the problems that society is suffering from? Unfortunately the answer is no. There are several reasons for this.

The concept of socially responsible business is based on good intentions. But some company executives use it unduly to allow their company to selfishly make profits. Their philosophy seems to be this: to make as much money as we can, even if we need to exploit the poor - and then give a small portion of our profits for social causes or create a foundation through which we can promote the company interests. Moreover, we should not forget to draw attention to our generosity!

For companies like this, social responsibility will never be a showcase. In some cases, a company that spends a cent on its socially responsible business will spend 99 cents to fund lucrative projects that will contribute to worsening social problems. This is not a solution to create a better society!

A small number of companies are led by leaders who are sincerely concerned about social change. As a new generation of managers move up the hierarchy, the number of these firms increases. Young executives today have been bred with television and the Internet; They are more aware of social problems and are more sensitive to global issues than any previous generation. They are concerned with issues such as climate change, child labor, the explosion of AIDS, women's rights and poverty in the world. When these young people become vice-presidents, presidents, finally CEO of a company, they will enter the boardroom with these concerns in mind. These new leaders try to put social responsibility at the heart of the company's philosophy.

It is a well-intentioned effort. But it faces a fundamental problem. Officers are accountable to private business owners or shareholders who invest in the stock market. The owners of companies have only one objective: to increase the value of their investment. Therefore, the leaders who report to them must strive to achieve a result: increase the value of the business. Profit maximization is a legal obligation to shareholders, unless the shareholders have given them a different mandate. Companies that display social responsibility do so under this condition, either explicitly or implicitly. In reality, they are ready to exercise their social responsibility as long as it does not prevent them from achieving the greatest possible profit. Some proponents of corporate social responsibility argue that the pursuit of profit and the exercise of social responsibility are not necessarily incompatible. This is sometimes true. Occasionally, by chance, the needs of society and the opportunities for high profits may coincide.

But what happens when profit and corporate social responsibility can not go hand in hand. What to do when the demands of the stock market and long-term social objectives come into conflict? What will the company decide? Experience shows that the pursuit of profit always prevails. Because managers of a company are accountable to its owners or shareholders, they must give

priority to profit. If they agreed to limit profits in order to contribute to social welfare, owners would rightly deceive themselves and consider corporate social responsibility as financial irresponsibility. Consequently, while advocates of socially responsible companies like to refer to the "triple bottom line" (financial, social and environmental) on the basis of which companies should be judged, only financial profit counts.

Since the early 1990s, American carmakers have been producing large 4 × 4 vehicles, which require enormous resources to consume large quantities of monumental fuels and cause terrible pollution. But these vehicles are highly valued and highly profitable, which explains why manufacturers continue to produce and sell them by millions. 4 × 4 cars are bad for society, for the environment and for the world. But the main objective of the major car manufacturers is to make profits; They continue to act in a socially irresponsible manner.

These examples illustrate the fundamental problem of corporate social responsibility. By nature, companies are not equipped to deal with social problems. It's not because the executives of the company are selfish, greedy or bad. The problem lies in the very nature of the business. More profoundly, it is found in the conception of the economic activity which is at the center of capitalism.

In order to face up to the various disadvantages met by CSR proponents, Mohammad Yunus (Nobel Peace Prize laureate) will introduce a new approach that takes into account the multidimensional character of human nature and allows, at the same time, to address the shortcomings of the market. While traditional enterprises aim to maximize profits, those which Muhammad Yunus creates are devoted to social-business. Entrepreneurs would found social-business not to realize private gains, but to pursue specific social objectives.

3. SOCIAL BUSINESS: A NEW FORM OF CORPORATE ACCOUNTABILITY.

For the fundamentalists of the free market, the approach in terms of social-business may seem blasphemous. The idea of a company with objectives other than the pursuit of profit has no place in their theology of capitalism. But the freedom of the markets would not be threatened if not all companies were trying to maximize profit. Capitalism can certainly be improved. Moreover, the stakes are too great for us not to question ourselves. By assuming that companies must necessarily seek maximum profit, we do not know the multidimensional character that the human nature contains. Economic activity therefore remains incapable of responding to the most pressing social problems.

A social-business is not a charitable organization. It is a business in the full sense of the word. It must cover all its costs while at the same time achieving its social objective. When you run a business, the way you think and work differs from what it would be if you were at the head of a charitable organization. That a social-business is first a company is what allows to define it and to describe its impact on the community. In the contemporary world, many organizations focus on creating social benefits. The majority do not cover all their costs. To implement their programs, not-for-profit organizations and NGOs rely on charitable donations and government support. Most of their leaders devote themselves fully to a work worthy of praise. But since

they do not cover the costs of their operations, they are obliged to mobilize some of their time and energy (if not most of it) to raise funds. A social-business is different. Operating in accordance with the management principles of a typical business, a social-business aims to cover at least all of its costs, even if it creates goods and services that provide social benefits. It pursues its objective by charging a price or a fee for its products or services.

How can the products and services sold by a social-business provide social benefits? There are countless ways to proceed. Here are some examples:

- A social-business that manufactures and sells high quality food products for the very special market of poor and undernourished children. These products can be relatively inexpensive because they do not compete with luxury food products that require costly packaging and high advertising expenses, but also because the company that sells them does not have to maximize Profit;
- A social-business that designs and markets health insurance policies enabling the poor to access affordable medical care;
- A social-business that develops renewable energy production systems and sells them at a reasonable price to rural communities that otherwise would not be able to finance their access to energy;
- A social-business recycling garbage, waste water and other waste that would otherwise pollute poor areas or, areas lacking political power strong enough to oppose it.

In each of these cases, and in most other forms of social business, one can imagine that the firm offers goods or services that generate turnover, even if they benefit the poor or society as a whole.

A project leading to a social objective that would charge a price or fee for its products or services, but would not be able to fully cover its costs, cannot be described as social-business. As long as it has to rely on grants or donations to fill its losses, such an organization is part of the charitable sector. But as soon as a project of this nature manages to cover its costs in a sustainable way, it reaches another world: that of companies. Only then will it become a social-business.

However, the principle of profit maximization is replaced by that of social benefit. Rather than seeking to raise the highest possible financial profit to satisfy its investors, social-business aims at achieving a social goal.

4. SOCIAL BUSINESS: WHAT FEATURES?

A social-business differs from a charitable organization, an NGO or a not-for-profit organization in another important way. Unlike these organizations, but as a company maximizing its profit, a social-business has owners who have the right to recover their investment. It may be held by one or more persons, by a corporation or by a partnership, or by several investors who pool their financial resources to found a social-business and hire professional managers to deal with them. It may also belong to the government or a charitable organization, or to a combination of investors of different types.

Like any business, a social-business can not suffer losses indefinitely. But the profit it makes is not the investor's. A social-business can, thus, be defined as a company that does not realize a loss and does not distribute dividends. Rather than being paid to investors, the profits realized by a social-business are reinvested in the company. They will improve the situation of project beneficiaries through lower prices, better services and greater accessibility.

For a social-business, profitability is important. Wherever possible, and without compromising their social objective, social-business should make a profit for two reasons: to repay their investors and to support the pursuit of long-term social objectives.

As a classic business, a social-business needs to anticipate its future. Giving a profit allows a company to broaden its horizons in a number of ways: by moving into new geographical areas, diversifying goods and services or improving their quality, increasing their research and development efforts, increasing the efficiency of their production process, introducing new technologies, adopting innovative marketing or distribution methods to reach the most disadvantaged population.

The core of a social-business activity, however, is to serve the interests of individuals - especially the most disadvantaged - as well as those of the planet in the best possible way, without incurring losses.

How long will investors get back their investment in a social-business? It depends on the management of the social-business and the investors themselves. The description of the investment would indicate the number of years beyond which investors could apply for reimbursement: five years, ten years, twenty years. Investors could choose the social-business in which they will invest on the basis of this timetable and their anticipated needs, but also according to their preference for a given social objective.

After recovering their initial bet, investors can determine what they want to do with it. They can reinvest in the same social-business or a traditional business, or use that money for personal purposes. In any case, they remain owners of the social-business in which they initially invested, and they retain a right of control over its operation. Why would investors put their money in a social-business? In general, people will do this in order to obtain the same kind of personal satisfaction that philanthropy brings. Their satisfaction may even be greater, for the company they have created will long continue to bring its benefits to more and more individuals.

The many billions of dollars donated every year around the world to charitable causes show that people want to give money to improve the situation of their fellow men. But investing in a social-business differs in many ways from philanthropy. A social-business is first of all capable of self-financing. It does not need to raise funds each year. Its dynamism, its durability and its growth depend only on its activity. Once created, it grows by itself. You will get more social benefits for your money than from a charity.

Those who invest in a social-business environment also recover their investments. They can reinvest that money in the same social business or in another one.

In this way, a given sum of money can produce more social benefits.

As we are dealing with a business, entrepreneurs will see in participating in a social-business an interesting opportunity to apply their professional skills and creativity to solving social problems. Once the investor has recovered his money, he remains the owner of the business and participates in determining its future activity. This perspective is in itself very exciting.

5. BEYOND THE FANATICISM OF THE MARKET

With the introduction of social-business, the market suddenly has new and sensational options. It becomes more interesting, more attractive, and more competitive. Social concerns enter the market on an equal footing, not through corporate communication.

The social benefits created by social-business may be an additional purchasing motivation for some current consumers who prefer companies that have the reputation of respecting their employees, caring about their environment, or being socially responsible. But for the most part, social-business will compete with classical companies in the same way that they compete with each other - and that the best wins.

Generally Mohamed Yunus distinguishes between two types of social business.

Concerning the first one: these are companies that seek to produce social benefits rather than maximize the profits of their owners. They are held by investors who want to contribute to social benefits such as poverty alleviation, medical care for the poor, social justice, sustainable development, and so on. These investors forgo financial reward in favor of psychological, emotional and spiritual satisfactions.

The second type of social business operates quite differently. They are classically profit-maximizing enterprises owned by poor or disadvantaged people. In this case, the social benefit arises from the fact that Dividends and enterprise valuation will benefit the poor, helping them to fight poverty and even escape it.

Note the differences that separate these two kinds of social-business. In the first case, it is the nature of the products, services or mode of exploitation of the activity that creates the social benefit. This type of social business can provide food, housing, medical care, education and other goods that can help the poor; It can mitigate, reduce social inequalities, or work to

alleviate ills such as substance abuse or alcohol abuse, domestic violence, unemployment or crime. All companies that manage to cover their costs by selling products or services and not paying dividends to their investors can be referred to as social-business.

In the case of social-business of the second type, goods and services produced may or may not create a social benefit. The social benefit derived from these enterprises will come from their mode of detention, because the company's actions will belong to the poor or the disadvantaged (satisfying the precise and transparent criteria developed and applied by the directors of the company). All the financial benefits generated by the company's business will help those in need.

Let's take the case of a rural area separated from the main shopping centers of the country by a very deep river, too wide and too wild to be crossed on foot or by using ordinary vehicles. Only a tray allows to cross it; but it is expensive, slow, and affords but an irregular service. As a result, low-income people in the region face economic and social disadvantages that further reduce their purchasing power, limit the availability of the most affordable products and hamper their access to education, health services and other vital services. In our example, we assume that national and local governments are unable to solve the problem because of lack of money, political indifference, or other dysfunctions. (Although this is a hypothetical example, it describes exactly the conditions prevailing in many developing countries.)

Let us suppose now that a private company is created to build a new highway and a modern and secure bridge linking this rural area to the economic heartland of the country. This company could be structured in the form of social-business and manage the situation in two possible ways.

First, it could provide low-income residents with reduced-rate access, while it would apply the full rate to middle- and upper-class residents and large commercial organizations.

(It would obviously be necessary to develop a procedure to discriminate against individuals on the basis of their income: a card similar to that used to indicate that the holder is eligible for public allowances could be presented to the persons charging the toll.) Toll revenues would cover the costs of construction, and maintenance of the bridge and highway where the presence of social businesses could boost the local economy and create jobs.

Secondly, the ownership of the bridge and highway management company could be attributed to the low-income inhabitants of the rural area. This result would be obtained by selling them shares at low prices; they would buy them through loans from microcredit organizations or through credits that they would later repay with the profits of the company.

The additional profits generated by the tolls could be either invested in new infrastructure projects or returned in the form of dividends or company holders.

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THE IMPORTANCE OF STATE SUBSIDIES FOR ECONOMIC AND SOCIAL DEVELOPMENT

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ABSTRACT

State subsidies have a great part in stirring economic and social development in counties and/or separate regions in which life standard and economic growth are exceedingly low, with high unemployment rates etc. State subsidies with respect to legal entities are of great value, because life standard depends on financial conditions, terms of business, status of employed and unemployed subjects, social conditions and economic and political situation in the county. Scope of state subsidies and higher life standards provide better position of legal entity in the eyes of society and every individual - consumer. Financial system of legal entities will be more complex if there is a solid demand for their goods and services, i.e. if legal entity has better market position with respect to competition.

Legal entity from higher standard country with state subsidies that sells goods and/or services internationally will establish good position amongst competition. It is plausible for legal entity to distort competition, but such state incentive is not considered to be acceptable. In general, state subsidies have very subtle effect on society.

Keywords: *Economic development, state subsidies, life standard, society*

1 INTRODUCTION

State incentives have a great part in stirring economic and social development in counties and/or separate regions in which life standard and economic growth are exceedingly low, with high unemployment rates etc. State incentive with respect to legal entities are of great value, because life standard depends on financial conditions, terms of business, status of employed and unemployed subjects, social conditions and economic and political situation in the county. Scope of state subsidies and higher life standards provide better position of legal entity in the eyes of society and every individual - consumer.

Financial system of legal entities will be more complex if there is a solid demand for their goods and services, i.e. if legal entity has better market position with respect to competition. Legal entity from higher standard country with state subsidies that sells goods and/or services internationally will establish good position amongst competition. It is plausible for legal entity to distort competition, but such state incentive is not considered to be acceptable. In general, state incentives have very subtle effect on society.

2 WHAT IS STATE INCENTIVE?

The reality of nowadays is that there is a deep division of countries according to their development, from countries with a very low life standard, to developed countries, with lower rate of unemployment, higher rates of economic growth and low inflation. Therefore, state incentive programs have a major role in stimulating economic development in areas where the life standard is extremely low. As the life standard depends on the material conditions, business conditions, the situation of the employed and unemployed, social conditions, economic and

political environment within national borders and state subsidies in the operation of business enterprises are of great importance. These programs have a subtle effect on society, generally. State incentive programs are a burden the state budget, i.e. actual or potential public expense or reduced public income, providing the user of subsidies more favourable market position with respect to competitors (Kapor, Nestorović, Gobeljić, 2015). State incentive programs are a form of state aid, which represents every actual or potential public expense or reduced public income. The provider of state aid, i.e. the creators of incentive programs, could be the state, autonomous province, local government or any competent authority. Users of such assets could be legal entities or individuals who perform certain business activities. On the one hand, the beneficiaries of funds or recipients may obtain a very favourable position in the market compared to the competition, while on the other hand, it is also a violation of fair competitive "struggle" in the market, and such state subsidies are considered prohibited.

Business activities of users of budget funds must correspond to clearly determined strategy by creator of economic ambience of the state. It is in best interest for both side, user and provider of funds (state), that funds are allocated adequately and that such investments benefit whole society. On the one hand there are benefits for society and individuals, and on the other hand material effects in terms of profit maximization and lower costs are expected. The question is whose responsibility is the realization of certain project which is financed by the state incentives? More responsible are those who make decisions on investing, i.e. in which areas funds should be allocated, than the subjects who perform actual financing, i.e. providing funds. Users of state incentives must follow certain (contracted) rules, i.e. both sides must respect rights and obligations with respect to the law and regulatory framework. Creators of incentives can provide incentive in certain situations (Kapor, P., Nestorović, M., Gobeljić, Z., 2015):

1. Promoting economic development of certain area;
2. Executing a project of great value for the state;
3. Promoting certain business activities without endangering competition in the market;
4. Restructuring of legal entity confronting difficulties;
5. Increasing competitiveness of legal entity on international market;
6. Protecting and promoting cultural heritage;
7. Promoting environmental awareness etc.

Surely, in order to obtain funds from state authorities, it is necessary to provide a business plan or project file in culture.

Business plan represents a document which follows business activities of modern company. Business plan represents a document which describes in great detail all processes and activities arising from such business. (Kishel, Kishel, 1993). The purpose of business plan is the need to assess all aspects and factors, internal and external, that could influence business activities of the company, i.e. overall justification of planned business venture. Surely, the main goal is to lower the risk and to use state subsidies funds in the most efficient manner.

In order to obtain financial funds for analysing area of culture in one state, executing media projects, participation in science and other venues, promoting professional and ethical standards in the area of public informing and culture, it is necessary to develop project file. The structure of financial funds is defined based on the project. Project file helps financiers, whether state or private investors, to comprehend the coherence of the project. Also, it helps project managers (managers in the area of culture of media managers) to solve problems regarding allocation (gathering) of necessary funds. In times of economic crisis it is especially difficult to apply for

such funds, because, for example, banks consider investments in culture to be very uncertain (Molar, 2000)..

By providing funds, the state plays a great role as main driver of certain business activities, or areas. Of course, state authorities could favour certain area or activity, but it is necessary to consider the problem of unequalised growth within the state, which includes technological progress in one sector of economy, resulting in increased production of goods in that sector then in other sectors of economy (Kotlica, Knežević, 2005).

State incentive programs can be direct or indirect. As a direct incentive, there are direct subsidies and grants in certain business activities, while indirect incentives could be tax and credit reliefs. In accordance with Serbian regulations, state incentives include subsidies, subsidies rates, credits under favourable conditions, tax incentives (tax reliefs, tax credits, tax write-offs, tax exemptions etc.), reduction of social security contributions, debt write-offs, guarantees etc. (KKDP, 2015).

The scope of state incentive programs and higher life standard provide better positioning for the company in the eyes of society and every individual - consumer. Financial system of legal entities will be more complex if there is a solid demand for their goods and services, i.e. if legal entity has better market position with respect to competition. Legal entity from higher standard country with state incentive that sells goods and/or services internationally will establish good position amongst competition. In general, state incentive programs consider that most of the funds is granted to small business entities, and less to major subjects. Small businesses are mostly reimbursed up to 70% of eligible expenses, medium entities up to 60%, and large entities up to 50% of eligible expenses. Eligible expenses are calculated as net difference between benefits and expenses related to additional investments in order to upgrade business activities, environmental awareness, cultural identity, competitiveness etc.

For example (Samuelson, Nordhaus, 2009), the Government of USA changed the landscape by building international highways. By providing faster traffic and made cars more accessible product, that giant highway net decreased the importance of railways, but on the other hand, it also decreased transportation expenses, increased urbanisation and relieved progress of civilization as well as connection between different subcultures.

3 TYPES OF STATE INCENTIVE PROGRAMS

Categories of state incentives can be (Ministry of Finance, Republic of Serbia, 2009): Regional state incentives (in occasion of establishing SME and opening new work places, as well as covering operating expenses), horizontal incentives (in occasion of establishing SME and hiring, incentives in the area of culture, and for environmental protection, research and development, improvement, training), sectoral incentives (incentives of certain sectors, for example in the area of culture, education, transportation, coal) and incentives of low value (*de minimis* – is assign only in case when there is no possibility to conduct previous mentioned programs (categories)).

Regional state incentives is granted to encourage the economic development of underdeveloped or less developed regions, i.e. areas, especially those where the life standard is extremely low, or where there is serious underemployment rate (KKDP, 2015). Regional incentives are essential for those who are managing a company whose amount of work is reduced, and whose are on the beginning of business venture. Initial capital is necessary for businesses who are on the beginning of their operation on market. The initial capital may be equity, from its own sources and borrowed capital, which has to be returned back with added interest rate (as a cost of using borrowed money).

In the best case scenario, when legal entity has regular incomes it can solve all outcomes by itself, but emphasize is on the Republic of Serbia, country in transition, reality is slightly different. Business activities is not going always according to the plan, exceptions from

business plan are common thing. For entity to obtain enterprise it is required to have an initial capital. The brave ones who decide to start up a business, usually do not have enough own resources, so they choose to make a loan from banks in order to finance operational costs. The risk has to be covered by entity, in case it is not operating with positive income it will be in untoward position, it will have great loss. Those kind of losses will motivate entrepreneurs to make only and last decision to get out from the market. Those expenses for exiting from the market and market domain can be very risky, but necessary if entrepreneur have no other choices for struggling with stormy market of nowadays.

However, the state managed to encourage future entrepreneurs who are willing to set up small businesses, who are willing to provide new job positions and reduce certain percentage of unemployment, and who are willing to encourage the development of the domestic market as well as competition, placing in the focus consumers and users of their products or services.

In the range of competitive companies, they are trying to put emphasize on their qualities, in way to attract customers. Their contribution is comprehensively helping continuation of growth and development of national economies. (Eric, Beraha, Đuričin, Kecman, Jakišić, 2012).

There are state incentives in Serbia, as well as programs for supporting small and medium companies and entrepreneurs. The purpose of these programs is to help entrepreneurs in almost every business activity, in the area of culture, environmental protection, science, research and development, training etc. Also, state incentives contribute to hiring new employees in all aforementioned areas.

There is a connection between all categories of state incentives. Accordingly, next category is horizontal incentives.

Horizontal incentives include state incentives to small and medium companies while hiring. Incentives can be in the area of culture and informing, environmental protection, research and development, training. Incentives provided by the state while hiring new employees are various, but mostly refer to tax exemptions for employer.

Many employers use respective incentives when hiring invalids. Employer is exempt from social security contributions on behalf of the employer, in period of 3 years from the day of employment, in accordance with the Article 45b of the Law on mandatory social security contributions (Official Gazette RS, no. 62/06 ,5/09, 52/11, 101/11, 47/13, 108/13 and 54/2014). This Law clearly defines requests that employer needs to fulfil in order to acquire personal income tax exemption.

In the area of agriculture and environmental protection, Republic of Serbia and EU programs provide various incentives in order to motivate farmers and ecologists, providing them with non-refundable assets. Bearing in mind that Serbia is perspective country in terms of agriculture, such programs contribute to greater engagement of young farmers, giving them an opportunity to become successful entrepreneurs.

In the area of culture, there are incentives for production of audio-visual art in Republic of Serbia, which also tends to promote Serbia through culture, to contribute to development of this area by producing audio-visual art. The government of Republic of Serbia has issued a statute on this type of non-refundable incentives for all subjects engaged in the production of audio-visual art, especially for: feature film, TV movie, TV series, animated movie, dedicated movie, documentaries etc. (Ministry of commerce of the Republic of Serbia, 2015).

Sector incentives (incentives in certain sectors, for e.g. Sector of steel production, coal mining, traffic). This narrowed division of state aid states about the scope including only certain businesses, i.e. sectors (Ministry of commerce of the Republic of Serbia, 2015). Sector incentives that refer to steel production are based on removal or preventing damages caused by companies activities which have great impact on environment. Legal entities concerned about environmental protection, energy savings or renewable energy, are most adequate candidates for these categories of state incentives.

For example, state aid to traffic sector is defined by the Statute on rights on state aid, Article 90. This statute clearly defines that “state aid is provided for combined cargo transportation, inland water transportation and air transportation.” (KKDP, 2014). Also, the authors consider that part of the sector incentives referring to transportation sector should aim at reduction of pollution and increase of promotion of electric powered vehicles.

Low value incentives, *de minimis*, are provided only if non of the aforementioned incentives is applicable (regional, horizontal, sector incentives). Low value incentive is granted to one legal entity in any period of 3 following fiscal years, and amounts to 23.000.000,00 RSD (KKDP, 2014). *De minimis* state aid granted in form of non-refundable financial funds is stated in gross amount, i.e. in the amount before taxes and other contributions. If *de minimis* state aid is not granted in the form of non-refundable assets, amount of the state aid must be stated in the form of non-refundable financial funds, i.e. in gross monetary equivalent.

De minimis state aid payable in multiple tranches is discounted on the value of state aid in the moment of granting, and applicable interest is discount/referenced interest determined by the ministry competent for finance activities, and published by the Committee for state aid control on their website (Ministry of finance of the Republic of Serbia, 2014).

4 STATE INCENTIVES IN REPUBLIC OF SERBIA

Based on the table 1, which shows state incentives in Republic of Serbia and their participation in GDP and public expenses, it can be concluded that state incentives in certain sectors have increased with respect to the year 2013. Also, it shows decrease in 2015 with respect to the previous year. Participation of state funds for incentives in economy in GDP ranges from 2% to 3%. Participation of state incentives in GDP in 2015 amounted 2.62%, while in 2013 amounted 2.25%, and in 2014 amounted 2.74%. Participation of such funds freights public expenses in the range of 4-6%. State incentives funds participate in public expenses in 2015 and 2014 with 5.65% in GDP, while in 2013 participated with 4.65%.

Table 1. State incentives in Republic of Serbia in regard to macroeconomic indicators in period 2013-2015 (KKDP, 2015)

Indicator	Measure unit	2013.	2014.	2015.
State incentives	mil. euros	720,0	904,0	863
GDP	mil.euros	31.981	33.059	32.907
State incentives – GDP	in %	2,25	2,74	2,62
Public expense	mil.euros	15.469	16.017	15.269
State incentives – public expense	in %	4,65	5,65	5,65
Employees	Number	1.715.000	1.698.000	1.989.617
State incentives for each employee	Euros	420,0	533,0	434
Population	Number	7.146.759	7.146.759	7.076.372
State incentives for each resident	Euros	101,0	127,0	122,0

In the analysed period number of employees has oscillated, but shows the increase in 2015 with respect to 2013. It could be concluded that this is a solid indicator, bearing in mind that the population showed a decrease.

Table 2. State incentives in the Republic of Serbia by category in period 2013-2015, stated in percentage (KKDP, 2015)

Category	2013	2014	2015
Agriculture	32,2	31,0	21,4
Industry and Services	67,8	69,0	78,6
Horizontal state incentives	5,9	28,0	35,4
Research and Development	0,0	0,0	0,0
Training course	0,0	0,0	0,0
Hiring	2,9	2,0	2,5
SME	0,1	0,0	0,1
Environmental Protection	0,0	1,4	0,0
Culture and Information	0,9	11,4	9,7
Improvement and restructuring	1,9	9,9	22,6
Other	0,0	3,3	0,5
Sectoral state incentives	22,0	23,7	13,2
Mining industry	5,3	4,3	4,3
Transportation industry	16,7	12,0	8,9
Steel industry	-	7,4	0,0
Regional state incentives	39,9	17,2	29,9
Total	100,0	100,0	100,0

Table 2 shows an overview of state incentives by category in the Republic of Serbia in 3 year period. Aforementioned categories, regional, horizontal and sector incentives, participate in total state incentive, alongside with agriculture, industry and culture. Namely, agriculture shows a decrease of funds from incentives in 3 year period. In 2013, agriculture accounted for 32,2% of granted funds, in 2014 for 31%, and in 2015 for 21,4%. On the other hand, industry and services show an increase of funds granted by the state. From 67,8% in 2013, grants have increased to 78,6%.

If we analyse other categories, we can spot oscillations in providing help and aid by the state. Horizontal incentives (incentives to small and medium companies, when hiring, incentives in the area of culture, environmental protection, research and development, training), i.e. horizontal state funds participate with 35,4% in total amount of incentives, in 2014 with 28% and in 2013 with 5,9%. Thus, these incentives show a drastic increase of granted funds. The biggest part of horizontal incentives is hiring and sanitation and restructuring. Exception is that in 2014 culture and informing hold down 11,4% of granted funds. In 2015 sanitation and restructuring account for 22,6%. In that period, validity of this statistic is restructuring of "Železara Smederevo". Horizontal state incentives were in 2015 granted in the form of subsidies (28%), tax incentives and favourable loans (7%), i.e. 0.5% (KKDP, 2015).

Sector incentives (incentives in certain sectors such as mining, transportation, coal) i.e. sector state funds show an increase, and then drastic decrease in 3 year period. Namely, in 2013 these

funds accounted for 22%, in 2014 for 23,7%, and in 2015 for 13,2%. The biggest part of granted funds refers to transportation, in 2013 – 16,7%, 2014 – 12% and in 2015 – 8,9%. Small amount of these refers to mining industry 4-5%. These incentives primarily refer to subsidies as a form of granting state funds.

Regional incentives in 2013 for total state funds accounted for 39,3%, in 2014 for 17,2%, and in 2015 for 29,9%. This situation show certain fact that those incentive founds from 2014 have decreasing trend in regard to 2015. Represented instruments of regional incentives are subsidies, tax incentives and optimal or more favourable loans.

Otherwise, when it comes to instruments assignment of state incentives in Republic of Serbia, which is mentioned above by legislation of Republic of Serbia, instruments can be: subsidies, subsidized interest, favourable loan conditions, tax incentives (tax reliefs, tax loans, debt extinction, etc.). So, there is direct and indirect state incentives.

Table 3 Structure of assignment instruments of state incentives in Republic of Serbia 2015 (KKDP, 2015)

Instruments	Participation in percentages
Subsidies	51%
Tax incentives	23,7%
Favourable loans	2,4%
Guarantees	8,6%
<i>De minimis</i> state incentives	1,263%
Other	14,3%

Table 3 show biggest participation of incentives, in structure of assignment instruments of state incentives in our state. These subsidies are in the amount of 51%. The second important instrument are tax incentives in amount of 23,7%. Despite these incentives, guarantees are in the amount of 8,6%, and favourable loans in amount of 2,4% with participation in structure of assignment instruments of state incentives. It is interesting that *de minimis* state incentive have participation in amount of only 1,263% in the form of non-refundable assets.

5 CONSLUSION

The scope of state incentives is significant in order for companies and also for individuals as consumers of their goods and services. In the state where state incentives represents budget constraint, also have certain benefits from segregation from its own sources for incentive in various sectors. Without the adequate and detailed analysis, funds should not be allocated to non-productive sectors of the economy.

Based on an analysis of state incentives in regard to the basic macroeconomic indicators from 2013 to 2015, it is evident that state incentives oscillate in their participation in economic growth, public expenditure. Surely, there is an evident growth of awareness of the state for segregation of incentives. However, on the one hand, there are segments within the category of state incentives, which recorded a 0.0% aid in the observed period, while on the other hand, significant participation in state incentive funds is noted for recovery and restructuring. Definitely, considerable funds are invested in unproductive enterprises, in their conservation and running, which disrupts the qualitative macroeconomic base. Most of the funds are granted through subsidies, and then through tax incentives. In the report of granted state aid of Republic of Serbia is emphasized deficiency of certain system solutions, long-term scheme of providing state incentives and adjustment of legislation.

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THE SOCIAL ISSUE IN THE COMPANY

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ABSTRACT

Companies should focus on sustainable development by managing their operations to stimulate economic growth and enhance competitiveness while ensuring environmental protection and promoting social responsibility. The notion of social responsibility has developed since the 1990s, in a context of financialisation and deregulation of economic activity. In a context or by the very fact of globalization, the state seems to be in decline, companies are often in the front line with the citizens' demands. If the economy is first made by the millions of businesses and organizations that produce goods and services every day, it is also the place of human dignity and respect for nature. Therefore, it is a matter of questioning the role and purpose of the company in society. This is the object of our paper.

Keywords: *financial capitalism, responsible company, deregulation, globalization*

1. INTRODUCTION

The transition from production capitalism to financial capitalism has led to the search for profit as the exclusive goal at the expense of the production of wealth. The disappearance of jobs under the effect of restructuring appears not as a cyclical phenomenon but as the effect of a profound structural change. Companies are tightening up the workforce and through social plans. The companies present these measures as an imperative condition of survival in the increasingly globalized competition. The resulting unemployment is referred to the community. These companies are consuming more and more of the natural resources that the planet has taken millions of years to create (air, water, oceans, forests, arable land, oil ...) Environment, which is beginning to be saturated.

Created after the Industrial Revolution, the company was originally social even though it was seeking to gain profits. After success in eliminating misery, the financiers came: they transformed the company into an organization looking only for profit. So its leaders no longer seek to "change the world", but to "do business" by accumulating a personal fortune on the way. The political and business networks enclose it in order to pump out all the possible wealth and power. Economists go in the same direction. They legitimize the frantic search for profit. Their theories assume rational agents, once selected product and technology, these agents would use the combination of factors that minimizes the cost of production and produce the quantity that maximizes profit. However, all the daily life of the company, all the activity of its executives and managers, are absorbed by the tasks that the economist already assumes. Minimize production costs, choose the most effective technology and determine the investment programs. The economist is interested in the general equilibrium which follows them, not in the very life of the enterprise. This explains a paradox. The partisans of the "market", who want the disappearance of all regulations, are at the same time supporters of the enterprise; But the company to which they think, a unit of profit realization.

If the economy is first made by the millions of businesses and organizations that produce goods and services every day, it is also the place of human dignity and respect for nature. Therefore, it is a matter of questioning the role and purpose of the company in society. This is the object of our reflection.

2. THE RESPONSIBLE COMPANY: WHAT DEFINITION?

Understanding social responsibility goes far beyond a simple concept. This approach makes it clear that understanding the term "social responsibility" requires less to look at "the interface between business and society" as has often been proposed, than on the enterprise as a social fact, not so much on an organizational level, but on the scale of the structuring of global social relations. In short, we argue that the phenomenon of social responsibility is indicative of the break-up of the compromise at the base of capitalist enterprise and more broadly of the traditional development model of which it is the heart.

A large part of the literature on social responsibility, still predominantly derived from the management sciences, has sought to define social responsibility without actually reaching a universal definition. It is true that since its first manifestations several decades ago, practices of social responsibility have changed, prompting researchers to constantly adjust their reading. But more fundamentally, social responsibility, which was carried out exclusively by managers not so long ago, has been monopolized by other social actors who have not hesitated to contest the acceptances hitherto accepted in the convenient.

This posed a particular problem for researchers who tended to circumvent the problem of a universal theoretical definition by referring to institutional definitions of social responsibility. They have somehow taken sides for a particular and commonly accepted definition, most often without mentioning its controversial character, that social responsibility refers to corporate initiatives of general interest that go beyond the minimum legal requirements as well as the establishment Dialogue between the company and its stakeholders. Their choice of adopting such an institutionalized definition is most often justified by the concern to clarify a confusion which, in their opinion, impedes the understanding of social responsibility.

3. EVOLUTION OF SOCIAL RESPONSIBILITY

We are not those who insist on the secular nature of social responsibility to the point of denying any newness to the phenomenon. If the expression is not new, its generalization in speeches, dates from a few years only.

Historians of social responsibility and business ethics draw a parallel between the evolution of the capitalist economic system and the ethical and social questioning of the enterprise. Three factors contributed to this question that emerged at the beginning of the century: disillusionment linked to the promises of liberalism, the enterprise's desire to show itself better, while privileged few enjoyed monopoly profits, and the birth of Management sciences. From the 1920s, the rise of socialism stimulated criticism of capitalism as well as debates on the distribution of wealth and the role of the state. The monopolistic practices resulting from the movement of concentration of companies favor the emergence of a major antitrust movement which will lead to the strengthening of the legislative framework. According to some researchers, it is to address the concern raised by the growing power of business and in the face of potentially drastic legislative responses that business people begin to argue about corporate social responsibility. However, if it remains attached to the traditional functions of the enterprise (producing useful goods and services, making profits, creating jobs and creating a safe work space), the social responsibility of that era is also typically paternalistic. That the emphasis is on charity and governance: the company must be generous towards the disadvantaged and take account of the other social actors by considering them as an integral part of its role as agent. Finally, this period has been marked by questions about the morality of business people, and some believe,

therefore, that it is less a matter of "business ethics" where attention Business ethics "that focuses on the individual behavior of managers.

It is different from the era that began in the 1960s when social responsibility became a much more explicit topic for business people. Economically, the thirty glorious years following World War II are devoted to providentialist policies and mass consumption. The internal structure of companies becomes more complex until they become real organizational bureaucracies, and their control passes into the hands of a new class of leaders dissociated from the shareholders. Companies seem to enjoy a renewed power, which is no stranger to a rise in social demands. Towards the end of the 1960s, new social movements addressed companies directly about pollution, human rights and consumption. In 1972, the Club of Rome report exposed the dangers of resource depletion resulting from unlimited economic growth. These so-called counterculture movements favor the development of the anti-business currents that worry the economic backgrounds.

The ethical and social questioning of the company then takes the form of a polarized debate between the proponents of a broader conception of corporate responsibility and the advocates of a strictly economic perspective of this responsibility, System of free enterprise "in the face of the communist threat. The latter's arguments are based on a societal view that it is by focusing on its private objectives that the firm contributes to the public interest. Proponents of social responsibility argue that the social contract underlying the free enterprise system has changed, and that the company's obligations are no longer limited to making profits but also to meeting new challenges. Other rationalizations of social responsibility develop with the new theories of organization which propose to abandon the Taylorian metaphor of the machine-enterprise to the benefit of an enterprise-organism whose survival depends on the constant adaptation to its environment. In addition to making social responsibility a management issue, these theories will give a moral perspective to the perceived enterprise as a subject, and according to which its activities can not be exclusively judged from an economic point of view.

The institutionalization of social responsibility begins at the turn of the 1990s, in the process of globalization. States pursue broad deregulation and privatization policies and lend themselves to tight control of public finances in a spirit of deficit reduction. Coupled with the development of new financial products and "3D" policies (decompartmentalization, disintermediation, deregulation), new communication technologies contribute to the integration of markets and the financialization of the global economy. The capital structure changes as institutional investors, large financial operators in search of high returns, impose themselves. Companies adopt reticular configurations and are incorporated into financial holding companies. The finance function takes precedence over the production and marketing functions, making financial performance the main variable of performance. In the era of this new "patrimonial" capitalism, organizations seem to emancipate themselves from their territorial attachment in order to be increasingly subject to the dictates of the financial markets.

On the social level, if the collapse of the Soviet bloc seems to enshrine the capitalist system, it faces renewed criticism of increasing inequality, persistence of poverty and rising unemployment, but also a multiplication of problems Environmental issues that are beginning to emerge on the international agenda; In 1987, the Montreal Protocol on the Ozone Layer was signed, and Gro Harlem Brundtland published the report Our Common Future, which popularized the concept of sustainable development. It was during this period that social responsibility became a practical one, but also as a managerial principle. In the wake of Freeman's 1984 work on the strategic importance of stakeholder management, the idea that social responsibility goes hand in hand with the sustainability of the business, A good business practice, is gradually emerging.

This instrumental perspective of social responsibility was shaken at the turn of the 2000s, when, thanks to an important dissemination movement, new actors were invited into the debate: the

State, NGOs and trade unions. If the social movements begin by rejecting the concept of social responsibility, they then choose to appropriate and reinterpret it, evoking in particular the idea of a necessary "empowerment" of enterprises. Depending on a new regulatory framework that can operate in the context of economic globalization, such accountability rests, in particular, on universal international standards. We see how this perspective is the opposite of a not only voluntary but relativist conception of social responsibility in which social performance standards are negotiated piecemeal with each stakeholder.

In short, the current period is marked both by a generalization of the idea of corporate social responsibility and by fundamental antagonisms concerning the meaning and the modus operandi of this responsibility. Today, every company claims to be responsible and social responsibility is now included in the degree programs of management as a strategic principle. But behind this apparent unanimity, the positions can not be more polarized, as illustrated not only by the abortive approach of the European Commission, but also by the debates that have taken place within the framework of the future ISO 26 000 standard. Institutionalization of social responsibility is therefore difficult insofar as the voluntarist and relativist conception put forward by managers remains largely controversial. Nevertheless, these controversies flourish on fundamental transformations of the economic imaginary of all the social actors that can be synthesized in three points:

- The company has responsibilities in addition to its economic mission;
- The company can (and must) embrace a mission of general interest;
- The economic sphere can not be thought of as independent of social and environmental dynamics and realities.

As a backdrop to debates on social responsibility, these proposals, which today make a consensus among the social actors, correspond to a real break with the prospect of the company still defended during the 1970s and according to which it is in Devoting to the maximization of its profits that the company fulfills its social mission. These proposals open the way to a new perspective on the role of business leaders who, raised to the rank of social managers, may have to respond to a new morality. By remaining subject to financial performance obligations in an economic system that still minimizes social and environmental costs, it is only through an optimistic view of social responsibility based on the assumption of Situations that managers can combine their managerial obligations and this new morality, at the risk of being in a totally schizophrenic situation. It goes without saying that this necessary optimistic outlook largely dampens discourse on social responsibility emanating from economic circles. In order to pursue the deconstruction process that we have begun with a history, we will examine this discourse further and link it with the practices of social responsibility.

4. SOCIAL RESPONSIBILITY: A VOLUNTARY PRACTICE

The notion that social responsibility refers to voluntary initiatives going beyond the law refers to the historical context that we presented earlier, where social responsibility was introduced very early as an alternative to regulation. Management researchers have literally urged managers to be socially responsible in order to prevent the government from being pressured by the public to legislate to force recalcitrant companies to become responsible. If this argument is still used today, it finds a renewed echo in the context of economic globalization which enshrines a true legislative autonomy of the company. In short, social responsibility appears in this context as the only alternative since there is no legislative authority or regulation on a global scale.

This argument, however, does not stand up to analysis insofar as it is not so much the lack of law that characterizes the world scale as the difficulty of applying the standards laid down at

that level. Yet discourse highlighting the "lack of regulation" on a global scale is in fact denying the existence of international law and discrediting the norms laid down at that level in order to relegate to the background the difficulties of its implementation due to lack of appropriate institutions, but also precisely because of the behavior of companies. We see here the incongruity of the reasoning that makes it possible to present voluntary initiatives as a credible alternative, whereas an analysis more focused on the effectiveness of standards reveals not only the fact that voluntary measures hardly offer any more guarantee of implementation than international law, but even more provocatively, the fact that it is the companies themselves that slow down this implementation. Secondly, there is a paradox in the idea that voluntary initiatives may emerge in lieu of regulation. If, as we saw earlier, social responsibility is profitable, legislation is superfluous. On the other hand, if the responsible initiative is costly and can not be justified on the basis of economic rationality, it is not possible for the company to put it forward without being constrained by a penalty of retaliation by shareholders. Between these two situations, however, there is a dynamic whose common discourse seeks to account for the long-term evolution, but which corresponds more prosaically to the interplay between the evolution of legislation and the strategic anticipation by which an unprofitable initiative today becomes so tomorrow.

5. DIALOGUE WITH STAKEHOLDERS

The idea that the company must maintain a dialogue with its "stakeholders" was formalized by Freeman in his famous 1984 Stakeholder management. A Strategic approach. This dialogue is not presented as an end in itself but as a strategy to reduce the social risks associated with the company's activities. In short, while dialogue with stakeholders may be a social responsibility, it is nevertheless a matter of strengthening the company's economic mission. The thesis developed by Freeman is that the socio-political context requires a broader view of the opportunities and threats of its environment, which presupposes that it no longer cares solely about its traditional interlocutors (the state, competitors, shareholders), but is listening to its stakeholders (or interested parties) defined as any group likely to affect or be affected by the activities of the company, to the extent that by being affected, a group could react and affect the company in turn. From a managerial point of view, one understands the interest of such a perspective which has been taken up by most currents in corporate strategy. But this theory and its vocabulary have been exported far beyond strategic practices to be at the heart of the analysis of the "relationships between business and society". However, apart from a managerial perspective, stakeholder theory obscures rather than illuminates social dynamics. In the first place, the terminology "stakeholder" assimilates the different social actors and thus masks the nature of the link between the actor and the company that was explicit in the traditional vocabulary. Workers, government, shareholders, NGOs: all are only stakeholders in the company with whom they enter into dialogue. Moreover, in this way, the model establishes the company as a social actor, which has the effect of naturalizing it and erasing its real nature of structuring social relations. In this representation, it becomes impossible to perceive the control exercised by managers over employees through the company, in short, to understand how the company hierarchizes social actors among themselves and constitutes a real vehicle for the domination of shareholders and managers over workers, consumers and local communities. To this is added the reduction of the government to one actor among others, which forbids thinking about its function of structuring the environment in which the company operates and even less its power to reform the company itself and, consequently, to redefine the social relations that it structures. In summary, stakeholder terminology naturalizes the enterprise and eliminates its structuring role, that is, the hierarchy of social actors and the vehicle of domination. But the stakeholder theory first has a practical ambition to equip the company to deal with an increasingly threatening social context. In this respect, it not only presided over new practices,

but also helped to trivialize the direct communication between the company and the social movements hitherto addressed to the State. While this dialogue may seem futile given the disparity of forces involved, it has been an important modernizing force in recent years for companies seeking to demonstrate their social relevance and to establish their legitimacy. Progressively, social movements have thus made an incursion into the assessment of the social and environmental performance of the company, no longer in a protesting space, but in a new space of dialogue and consultation which does not, however, prohibit Debates and confrontation. The stakeholder theory, on the other hand, lessens the transformation of the strategies of the social movements which, not restricted to the direct dialogue to which they wish to report, have chosen to invest their own economic statutes in order to make their claims known. NGOs have sought to politicize the consumer to stimulate demand with social and environmental demands and thus structure the market according to these new performance criteria. In addition to expressing oneself on the social scene by investing in new virtual spaces, dialogue between managers and social movements is thus formalized in traditionally economic arenas that tend to become politicized as they are invested by these new players. As a result, unilateral social responsibility measures have gradually given way to multi-stakeholder initiatives where the company has accepted the principle of co-definition and co-evaluation of its social and environmental performance. Multi-stakeholder initiatives have thus emerged in several industries as forums for discussion and negotiation on the social and environmental issues of industry and socially acceptable management principles by presiding over unprecedented regulatory mechanisms. Over the last fifteen years, certifications, labels and codes of conduct have increasingly emerged from multi-stakeholder forums (although some are still exclusively industrial, governmental or movement-based) Consumers and investors on the social and environmental performance of the company and its products. If they correspond to a genuine innovation in terms of social regulation, we should not consider these mechanisms in opposition to the regulatory system. Under the guise of "governance", public authorities have left more room for social actors in the definition of standards in recent decades and tend to recognize the consensus already reached between social actors rather than imposing a policy without Anchoring in civil society. In short, the new regulatory dynamics endorse compromises made ex ante in new spaces. Further downstream, social responsibility reports, while rarely mandatory, accredit the idea that the company is accountable not only to its shareholder financial results but to its performance Social and environmental impact on "its stakeholders". So today companies are exposed on all fronts: subject to the traditional social demands that new technologies can make devastating, they must take into account an increasingly politicized market and claiming shareholders. And if they seem to participate with good grace and even, some say, with suspicious enthusiasm for the co-definition of their social responsibility, they continue to be the subject of demands that do not seem to diminish. To the extent that this is so ineffective in calming the social climate and appeasing the demands of social movements, it may be asked why companies strive to deploy social responsibility measures and structure a discourse the question. So far, it can be argued that a new compromise has sprung up behind the capitalist enterprise, based on two dimensions: ecological consumerism, whereby companies have agreed to meet environmental demands on condition To maintain an economic system based on consumption, and the "democratization of capital", which offers everyone the opportunity to benefit from the profits made by companies. But this compromise is fragile because it is built on an accounting of wealth being redefined. The environmental crisis thus chairs new social conventions that could shift the primary principle of our economy based on accumulation, to make way for a conservation economy focused on managing environmental liabilities. It is at this changeover that a full internalization of environmental costs could take place.

6. CONCLUSION

The company has an interest in being involved in the societal field on the one hand. Because social pressures are often a sign of unmet needs or preferences (eg, cleaner cars or lighter products), the company can benefit from having identified and responded to these needs before its competitors.

The company fuels the strategic context of the company, which must therefore analyze the priorities and interests of emerging stakeholders or forces. When Coca-Cola aligns the launch of its product with "zero sugars", it claims that it is fighting the plague that obesity, diabetes, that by this code of good behavior, moral values of public health And well-being of the brand meet the concerns of society. From now on, the company can no longer afford to align only good balance sheets to shareholders, but that the creation of symbolic value passes through the definition of a universal service mission. This is how the company proves that it fulfills its duties with regard to society.

We have focused on corporate social responsibility and have traced the historical evolution from a passive concept centered solely on the company and its economic and legal responsibilities to an active concept involving all the stakeholders of the company. All of which have a role to play in making the company viable, equitable and viable. In spite of all the questions that remain unanswered at the moment, it can nevertheless be considered that, despite its still embryonic state, the concept of CSR is advancing, because companies are increasingly aware of emerging social expectations and their awareness of the "Social dimension of global sustainable development is improving.

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THE EMPIRICAL EVIDENCE OF CUSTOMERS' LOYALTY FOR SMART PHONE APPLICATIONS USE ON TOURISM SECTOR IN TURKEY

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ABSTRACT

Rapid developments in technology provided a proper environment for information and communication technology to evolve effectively and fastly (Huarng, 2011; Kim & Huarng, 2011). These technological innovations complete each other to meet consumers' needs (Huarng, 2015; Thakur & Hale, 2013), which cause new challenges in terms of service innovation to service providers in the business environment (Huarng & Ribeiro-Soriano, 2014; Ribeiro-Soriano & Huarng, 2013). As the service providers offer smart application to meet consumers' needs, understanding the impacts of consumer responses to service innovation on customer loyalty is crucial to service providers in the smart application context.

Keywords: *Customer Loyalty, Tourism Sector, Smart Phone Use*

1. INTRODUCTION

Rapid developments in technology provided a proper environment for information and communication technology to evolve effectively and fastly (Huarng, 2011; Kim & Huarng, 2011). These technological innovations complete each other to meet consumers' needs (Huarng, 2015; Thakur & Hale, 2013), which cause new challenges in terms of service innovation to service providers in the business environment (Huarng & Ribeiro-Soriano, 2014; Ribeiro-Soriano & Huarng, 2013). As the service providers offer smart application to meet consumers' needs, understanding the impacts of consumer responses to service innovation on customer loyalty is crucial to service providers in the smart application context.

Currently, people mobility is a key component in modern life of XXI century, facilitated by novel applications and new technologies. One of the opportunity niches with great potential for growth due to these new technologies is occupied by tourism. Furthermore, we must consider that our society is a potential consumer of daily technologies such as: mobile devices, mobile applications, gadgets, etc., which have conquered an important place in the range of our basic needs. That's why day by day application developers oriented to this kind of technologies, are performing the task to create and to innovate more applications, which can be used by people who own such technology and for all those who are part of our society.

2. MOBILE APPLICATIONS

According to the Information and Communication Technologies (btk.gov.tr), activities that smart phone users would usually conduct comprise of emailing (79%), looking up for direction (74%), accessing social networking websites (84%), reading news articles (42%), listening to

radio/music (47%), and watching online videos (39%), amongst others. In recent years, smart phone market penetration in Turkey has increased exponentially (72 million/2015).

The development of smart phone applications (abbreviated as apps) with expanding functions could be one of the boosting factors that contribute toward an elevated penetration rate. Apps consist of software programs that are designed to carry out certain tasks and available for downloading in apps store. Some apps could be downloaded free-of-charge, while others are chargeable apps. The top three most popular apps are weather, social networking, maps or navigation types of apps (Sutherland, 2013).

The executing platforms of an App are hand-held devices, such as tablet PCs and smartphones. As infrastructure of mobile networks has become increasingly mature, mobile applications, or Apps, have emerged as a new industry with business opportunities (Hoehle and Venkatesh, 2015). Mobile Apps facilitate free/almost free-to-play designs. Android users can choose among 1.5 million Apps and Apple users can avail themselves of any of the 1.4 million available Apps (The statistics portal, 2015a). Among these Apps, game Apps have been the most popular category (21.45%), followed by business (10.14%) and education (9.95%) ones; the most popular healthcare-related Apps have been health and fitness (2.77%) and medical (2.06%) Apps (The statistics portal, 2015b). However, not all Apps are highly accepted and used (Deloitte, 2012). The top 10% Apps account for 80% of the downloads; moreover, only 25% of downloaded Apps are used a second time (Dredge, 2011). Thus, App usability is an important topic for modern App users and developers. Nevertheless, minimal systematic help has been offered to evaluate existing mobile applications or to design new mobile applications (Hoehle and Venkatesh, 2015). Mass communication and entertainment applications are considered the most popular categories for downloading mobile applications (Wei, 2008). Mobile apps are available through application distribution platforms, which are typically operated by the owner of the mobile operating systems, such as the Apple App Store, Google Play, Windows Phone Store and BlackBerry App World.

Past research has found that price is unquestionably one of the most important cues utilized during a consumer's decision-making process (e.g., Chiang & Dholakia, 2003). Lin, Wu, Chuang, and Kao (2007) also indicated that using price information as an indicator of quality or sacrifice may further influence how consumers choose products. In contrast to traditional microeconomic theory, in demand-based pricing strategy scientists consider price as the equivalent of customers' perceived utility. However, setting prices to create customer value requires some insight into how a service or a product can create additional value for the customer, especially when that additional value comes from something as intangible as mobile services. Most apps are free, while others have a price. For examples of free mobile application services, WeChat has 600 million registered users and 100 million active users. Line has a piece of Asia as well, mostly Japan, Thailand, and Taiwan. As a result, the big companies have gotten a serious taste of the instant messaging industry considering the user base and also the wide spread of users across the globe. In addition to focusing on free mobile application loyalty; this study bases on popular free apps and draws on a use-and-gratification framework to examine the expanded use of hybrid platforms—web and mobile—for mass communication applications.

Mainly, tourism industry is known as information oriented (Sheldon, 1997; Wertner & Klein, 1999) and it is adapting new social media channels and technological communication tools. There are sufficient results which underline those tourism marketers should not ignore the effects of social media in distribution of travel oriented information. Most of the companies in Turkey are trying to adapt these changes to create value for themselves for increasing their outputs (Gülbahar & Yıldırım, 2015).

Tourism sector is one of the leading sector in Turkey. Almost, every hospitality enterprises in Turkey are updating themselves in order to catch the new wave. Moreover, search engines,

online travel sites, web sites and different technological platforms provides information exchange between online travelers and companies and builds “online tourism domains” (Xiang et al, 2008). In addition, internet framework covering the mobile communication is very powerful in Turkey relative to other emerging economies. Generally, new developments are implemented by international chain hotels in Turkey and small and medium hotels are trying to follow them with their marketing efforts and technological adaptations. Certainly, in the future, internet oriented tourism will use customer integrated technologies more common which enables companies to communicate with their customers more effectively and interactively (Gülbahar & Yıldırım, 2015).

3. LITERATURE REVIEW

The developments in mobile communication technologies are considered to be a mobile revolution by some. This revolution has started with the wireless telegram in the 1890s then moved onto stationary telephone systems from 1910 to 1980, analog mobile systems in the 1980s and the digital mobile systems starting from the 1990s. In the 2000s on the other hand, multimedia systems that were developed, helped more effective and comprehensive provision of mobile services (Steinbock, 2005: 2). Mobile phones, which are made available for the use of people as well as enterprises as a fruit of the many studies conducted in the field of communication technologies, are a means of communication that people use when they are on the go and need to communicate with others. In the development process of mobile phones, the objective was to ensure freedom of communication for people independent of the location they are presently at and as such the first mobile phone call was placed on April 3, 1973 in the United States of America in New York by Martin Cooper. The innovation of the mobile phone facilitated communication between people and removed any time and place constraints imposed by stationary phones (Cooper, History of Cell Phone). Mobile communication technologies offer many services that improve the quality of life for people: to give an example, SMS referred to as texting (Short Message Service) and the transfer of documented information that is MMS (Multimedia Messaging Service) gave rise to the age of information exchange supported by audio, visual and imagery means. These developments rendered the mobile phones, means of mobile entertainment, a new channel of marketing for manufacturers and retailers, a means of multimedia shopping as well as Internet connection, reservation handling, ticket purchasing and marketing of goods and services.

3.1. Loyalty

Loyalty refers to the degree to which customers intend to repeat their purchases in the future, express a positive willingness toward the provider, and consider this provider the sole option for future transactions (Colgate, Tong, Lee, & Farley, 2007). Among the academic and professional fields, interest is growing in identifying the factors that influence customer loyalty with developing the most appropriate market action strategies (Gustafsson, Johnson, & Roos, 2005). From this customer perspective, customers are loyal because they really wish to maintain the relationship. The service providers make efforts to increase customer loyalty including pleasing customers, providing them with complete satisfaction (Balabanis, Reynolds, & Simintiras, 2006; Srinivasan, Anderson, & Ponnavaolu, 2002) or setting up switching barriers.

3.2. Service Quality

Research on service quality reveals a variety of reasons why customers choose to stay with their service providers. For example, Parasuraman et al. (1985, 1988) provide a conceptual model of service quality and develop an instrument, namely SERVQUAL, for measuring service quality. Research shows that perceptions of service quality affect customer loyalty. Therefore, first hypothesis is defined as follow:

H1. Tourism smart application's service quality has a positive effect on loyalty.

3.3. Service Leadership

Service leadership offers the opportunity of enjoying the benefits to a greater extent. Research shows that customers' positive responses to new technology can increase a firm's overall value (Lee & Grewal, 2004). Service leadership can increase the extra value and consumer attention to his/her service provider, which in turn affects loyalty. Service leadership enhances loyalty in the service industry. Therefore, second hypothesis is:

H2. Tourism smart application's service leadership has a positive effect on loyalty.

3.4. Easy to Use

Davis (1989) defines easy to use as the degree to which a person believes that using a particular system would be free from effort. Technology acceptance model specifies easy to use as a pre-condition for usefulness perceptions and other studies support that easy to use predicts perceived usefulness (Lanseng & Andreassen, 2007; Oh, Jeong, & Baloglu, 2013). Further, the research posits that easy to use affects the loyalty of customers.

H3. Tourism smart application's easy to use has a positive effect on loyalty.

3.5. Satisfaction

Satisfaction is a function of a product's ability to fulfill customer expectations. A person's capability to use a product or service successfully results in higher satisfaction. Lam, Shankar, Erramilli, and Murthy (2004) and Voss, Parasuraman, and Grewal (1998) suggest that customer satisfaction is a kind of evaluation between prior expectations and perceived service performance. Bolton and Lemon (1999) and Gustafsson et al. (2005) think that if a customer feels a service is more than he or she expected, the customer rates the exchange as more satisfied. However, satisfaction is also an emotional experience that consumers feel good about and appreciate as an experience.

H4. Tourism smart application's satisfaction has a positive effect on loyalty.

After reviewing the management and marketing literature and conducting a pilot study with 55 consumers with smart application use, four major groups of construct appear to be influencing customer loyalty: service quality, service leadership, easy to use and satisfaction.

4. RESEARCH METHODOLOGY

4.1. Sampling

The research selects smart applications use of consumers in the tourism sector in Turkey. Due to the intense competition, service providers in the tourism markets rely on service innovation to gain competitive advantages. Consumers in the tourism sector prefer the latest smart applications service innovation. In summary, tourists offer an interesting context for investigating the strategic impacts of smart applications technology innovation.

4.2. Data collection

In this research data is collected through questionnaires that were distributed to tourists. The study employs a mixed approach with both web-based and personal interview, which gain the advantages of increasing respondent rate. Therefore, administering an online survey is a very effective means of reaching the majority of the population when personal interview survey can increase response rate. Characteristics of the sample are shown in Table 1.

Table 1. Demographic characteristics of sample (n:785)

Age	Percentage
20 and younger	12.8
21-30	21.4
31-40	43
41-50	12.6
51 and older	10.2
Frequency for buying the room cloth per year	Percentage
Less than 1	31.7
2-4 times	37.5
5-7 times	26.8
8 times and over	3
Gender	Percentage
Male	67.6
Female	32.4
Level of Education	Percentage
High school or less	25.7
University	44.6
Graduate	29.7

4.3. Variable Definition and Measurement

The study adapts most of the measurement instruments from existing literature. On the basis of literature review, this research identifies key constructs and opinions from a panel of industrial experts and researchers. The research employs pre-test before putting the questionnaire online. The study draws the scale for loyalty from Balabanis et al. (2006). The items for service quality are from Zeithaml et al. (2002) which reflect consumers' preference toward the current service provider. The scale for easy to use is from Davis (1989). Similarly, the scale for service leadership adapts from Lee and Grewal (2004) and Ladhari, Pons, Bressolles, and Zins (2011). Finally, on the basis of literature, the study develops satisfaction scale (Yang & Peterson, 2004). In Table 2, there is a 7-point Likert scale to measure these items.

4.4. Empirical Results

This research process provides a confirmatory technique that allows assessment of the reliabilities and validities of the research constructs. The research conducts confirmatory factor analysis (CFA) and path analysis on all the research constructs of service quality, service leadership, easy to use, satisfaction and loyalty. In the research CFA shows a good fit for the theoretical model. The average variance extracted (AVE) of construct exceeds the minimum criteria of 0.50 (Fornell & Larcker, 1981).

Table 2. Measures used with mean and standard deviation.

(Table ends on the next page)

Construct and scale items	Mean	S.D.
Service quality (5-point scales anchored by strongly disagree and strongly agree)		
The smart app. is visually appealing	4.07	0.88
The smart app. is prompt service	4.02	0.64
The smart app. is well-organized	3.85	0.94
The smart app. can solve problem	3.59	1.02
Service leadership (5-point scales anchored by strongly disagree and strongly agree)		
My service provider offers a larger choice of services for customers.	4.23	0.44
My service provider satisfies customers' needs with more diversified service.	4.11	0.86
My service provider offers services with great variety.	3.48	1.04
Easy to use (5-point scales anchored by strongly disagree and strongly agree)		
The smart app. requires little hard work	4.52	0.38
The smart app. easy to accomplish what I want	4.33	0.90
The smart app. would be convenient to use	4.27	0.94

Satisfaction (5-point scales anchored by strongly disagree and strongly agree)		
This smart app. meets my needs.	4.78	0.51
This smart app.is very competent	4.35	0.82
This smart app. gives me the service that I expect	4.19	0.90
This smart app. gives an excellent service	3.88	0.94
My experience with the smart app.is positive.	3.37	1.02
Loyalty (5-point scales anchored by strongly disagree and strongly agree)		
I would recommend my service provider to my relative and friends.	3.79	0.88
I will choose my service provider in the future.	3.42	0.90
My service provider is my first choice.	3.02	1.08
I will say positive things about my service provider	2.96	1.10

The convergent validity of each construct and discriminant validity for all constructs are accepted and shown in Table 3.

Table 3. Construct measures in the study.

Measures construct	Cronbach's α
Service quality	0.86
Service leadership	0.82
Easy to use	0.79
Satisfaction	0.83
Loyalty	0.88

5. DISCUSSION

The adoption and growth of smartphone apps has been rapid. Increasing numbers of smartphone users are downloading apps in Turkey, with 44 million users downloading apps in 2015.

The study is a comprehensive examination of the loyalty for smart applications, namely service quality, service leadership, easy to use and satisfaction. The research finds significant impacts of all research constructs on loyalty. Particularly, service quality, service leadership, easy to use and satisfaction have direct impacts on loyalty, confirming the importance of the pioneering and innovation strategy in the service industry.

Empirical results suggest the potential importance of the customers' loyalty of service innovation. Smart applications adoption becomes the most important differentiation and innovation strategy. On the other hand, service quality, service leadership, easy to use and satisfaction are relatively more important for enhancing customers' loyalty in the smart applications context. In this research the differential main effects of service quality, service leadership, easy to use and satisfaction on loyalty are present in the extensive technology acceptance model.

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LEGAL PROTECTION OF COMPETITION ON THE LIBYAN MARKET

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ABSTRACT

One of the important topics in international trade theory in the 1980s was the imperfection of shims competition and competitiveness in the market. The works on the theme of monopolistic competition Paul Krugman (1979, 1980) and Kelvin Lancaster (1979, 1980) and the theme of the oligopoly James Brander and Barbara Spencer (1981) spawned a number of new theoretical work. Consideration of imperfect competition has provided powerful tools for the interpretation of the positive theory of trade policy.

Protection of trade is a deliberate attempt to limit the import or export promotion because of barriers to trade. Despite the arguments in favor of free trade and increasing trade openness, protectionism is still widely practiced around the world. Competition is democracy in the "economy", because there can be no real political democracy if economic power lies in the hands of a few. It is the duty of respect for the prohibition of competition is considered from the aspect of mutual relations between persons and the company in accordance with the laws.

The consequences of violation of the prohibition of competition may be different. Effective competition is pervenciju creation or strengthening of positions of power that can be too influential in society and politics. In countries in transition, where we can today to include Libya and, in practice, it can be seen that the centers of power are out of state institutions, the flow of money and economic impact. As a model of legal protection of competition in the market and Libya and the countries of North Africa to be formed by competition authorities, which would represent a special type of independent regulatory bodies, which should monitor the sectors of the economy. The role of these bodies would be, on the one hand "economic regulation" with tasks common with sector regulators (prevention of abuse of a dominant position or the adoption of anti-monopoly policy), on the other hand, these tasks were not limited to a specific sector (such as telecommunications or the oil sector), but to their mandate could be expanded so that they protect all the rights that are considered essential in today's societies, twenty-first century.

Keywords: *competition, monopolies, and the right to legal protection, trade*

1. INTRODUCTION

One of the important topics in international trade theory in the 1980s was the imperfection of shims competition and competitiveness in the market. The works on the theme of monopolistic competition Paul Krugman (1979, 1980) and Kelvin Lancaster (1979, 1980) and the theme of the oligopoly James Brander and Barbara Spencer (1981) spawned a number of new theoretical works. The presumption of (un) perfect competition has led to the discovery of new circumstances in which trade barriers may increase national well-being, and an example might be government policy under the heading "strategic trade policy." Consideration of imperfect competition has provided powerful tools for interpreting the positive theory trade policy. Protection of trade is a deliberate attempt to limit the import or export promotion because of barriers to trade. Despite the arguments in favor of free trade and increasing trade openness, protectionism is still widely practiced around the world. Barriers to international trade can be used to protect the industry, such as those involving new technologies. This gives new companies the opportunity to develop, grow, and become globally competitive. Protection of

domestic production can, under certain conditions, allow a comparative advantage. For example, local companies can expand when they are protected from competition and to benefit from economies of scale. As companies grow they can invest in infrastructure and human capital that develops new abilities and skills. When you develop these skills and abilities there is less need for protection of trade barriers and then, if necessary, be removed. Standard trade theory result is that international trade limits the abuse of power of local monopolies. If we look monopoly in a small country, with a constant or increased cost, with which they face, their price is too low to export them to be profitable. In this case, the domestic monopoly will set a higher price than the competing company; a national net-being will be less. Too high price allows the use of power monopoly, and with domestic monopoly price, which is too high for imports is greater than the perfectly competitive industry. Agreed price acts as an effective solution for competition policy. Case monopoly clearly illustrates some elements of the anti-interventionist trade policy with regard to imperfectly competitive industry. Further competition eventually leads to an increase in the national well-being (Dixit, 1984). So in theory, but in practice, the likely implications of a large number of local companies that, if the optimal trade policy means intervention, that it will be more complicated. Assuming that have reduced barriers to entry of foreign firms into the domestic market, then there is an assumption that free trade is the best solution. Competition is democracy in the "economy", because there can be no real political democracy if economic power lies in the hands of a few. It is the duty of respect for the prohibition of competition is considered from the aspect of mutual relations between persons and the company in accordance with the laws. The consequences of violation of the prohibition of competition may be different. First of all, the person who has violated the rules on the prohibition of competition may lose the status of which has (e.g. May be excluded from society, removed from office and the like.). In addition, it may be responsible for the damage that society suffers because of the violation of competition rules. This restriction on the freedom of work is usually limited time (usually up to two years) and spatial (in the area where they can realistically compete with the employer). Competition Law is an economic law that says about the behavior of economic agents. Economics provides a theoretical basis for the law, and also offers the tools with which to analyze the market and competition on it. How J Brandeis once said, "A lawyer who has not studied economics is very prone to become a public enemy." Therefore, in order to properly teach competition law it is important to understand economic concepts that are inherent to this law.

2. THE ROLE OF LEGAL PROTECTION OF COMPETITION

The role of legal protection of competition in reducing poverty definitions of poverty are usually debatable, but have a common economic rationalization where the standard quantified as less than one dollar per day, which is used as a rule. Some of the developed countries refuse to accept the existence of poverty; while less developed countries usually acknowledge its existence, but are often inclined to say it's more about statistics than about reality. It is clear that poverty is unpleasant phenomenon, which cannot easily be recognized and accepted by government institutions. The discourse on the causes of poverty varied responses ranging from the wrong policy of the government to the "laziness" of the poor. No matter what the case, and regardless of the answers on many other questions can be asked regarding poverty, the presence of a minor or extreme levels of poverty is a reality in almost every country and denial in any context and in any way that hinders efforts to solve this problem: inevitably, poverty reduction and / or elimination of the subject and source of wealth for other people. For this reason, poverty is everywhere big business, and even in Africa. Sometimes it is said that the road to the mouth of the poor man goes through the hands of the rich. Whatever the cause of poverty, the solution for the mitigation usually lays in pragmatic political interventions, just because there is a need to know who the poor are and where they should be located. The main static effects of

competition should reduce the ability of firms to raise prices above marginal cost and to ensure that company products at the lowest possible costs. The dynamic effects of competition that may include incentives to innovate, invest in the development of new technologies and knowledge. Competition policy enhances economic efficiency and prevents to weaken the level of competition between firms in the market. A significant reduction in poverty requires a significant injection of resources into activities for poverty reduction and is not possible without economic growth. In his absence, a small increase in domestic resources, either through savings or tax revenues cannot do much to help. It is possible that competition law and policy competitiveness goals can influence or facilitate the measures that should be directed to the expansion of the basics of entrepreneurship through the modification and / or open prohibition against competition, i.e. tacit "arrangement" of the dominant firm (monopoly) and trade associations. Act on Protection of Competition needs to have a specific sphere of work and goals that can greatly contribute to the reduction of poverty by ensuring that are not accepted by companies that do not comply. The Law on Protection of Competition can also be used to break the cartels that restrict free trade. Furthermore, this law can be used to provide an environment in which there is no exclusive right to the business which can lead to failure of other unauthorized market actors. Competition can be directly and / or indirectly to contribute to wealth creation. Creating and maintaining wealth is the key to any successful strategy to reduce poverty.

3. LEGAL PROTECTION OF COMPETITION ON THE MARKET IN LIBYA

Modalities of legal regulation of competition include various ways to control competition, and establishing and implementing its system of legal protection. In addition to legislation, the system of legal protection of market competition includes the bodies and authorities responsible for the implementation of the review procedure. The concept of the modalities of legal regulation of market competition is the way it regulates the protection of competition in the market and performs classification modalities objectives and principles. Effective competition prevents creation or strengthening of positions of power that can be too influential in society and politics. In countries in transition, where we can today to include Libya and, in practice, it can be seen that the centers of power are out of state institutions, the flow of money and economic impact. As a model of legal protection of competition in the market and Libya and the countries of North Africa to be formed by competition authorities, which would represent a special type of independent regulatory bodies, which should monitor the sectors of the economy. The role of these bodies would be, on the one hand "economic regulation" with tasks common with sector regulators (prevention of abuse of a dominant position or the adoption of anti-monopoly policy), on the other hand, these tasks were not limited to a specific sector (such as telecommunications or the oil sector), but to their mandate could be expanded so that they protect all the rights that are considered essential in today's societies, twenty-first century. For example, Egypt's Law on Protection of Competition, which has been declared by the Law 3/2005 aims to ensure that economic activity does not prevent, hurt, or damage the freedom of competition. In principle, this law deals with the behavior of actors who operate in the market. According to the title of the law it aims to prevent just monopolistic practices, but not monopolies. In Libya, the situation is more than similar, especially in the oil and oil derivatives; where practical to adequate legal protection of competition, according to international law exists.

4. CONCLUSION

The market is the most efficient functional framework of economic flows, but not perfect. Irregularities in the market, resulting in the form of cartels, abuse of dominant position or prohibited concentrations produce higher negative and far-reaching consequences for the

overall economy and the economic development of society. States should have the function of a regulator of market participants and to provide conditions for the smooth functioning of competition, and consequently, and that competition in the market and concerns that arise in this regard are the subject of legislation. During the last decade, many developing countries have adopted or are in the process of competition law. There is a growing awareness among developing countries that the harmful affects of anti-competitive practices on their economies, as well as their population. The effects of such practices are not easily quantifiable and may therefore not obvious. However, developing countries, including Libya, which belongs to them, know how to recognize the potential benefits that can be derived from the implementation of these laws. The requirement is to establish a legal and institutional framework to combat competitive practices. The effects of anti-competitive business practices in developing countries and their prospects for development are serious and may need to be quantified, for example by analyzing the harmful effects of anti-competitive practices on the welfare and protection of consumers.

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THE ECONOMICAL IMPACTS OF THE GLOBAL FINANCIAL CRISIS IN ARAB COUNTRIES AND ITS THREATENS ON LEGAL PROTECTION

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ABSTRACT

When examining the causes for the financial crisis most people start directly with the real estate market (the place where the crisis really began in USA) focusing on the mortgages and unscrupulous lenders and casting the blame on the unsustainable real estate bubble which began to collapse in 2006. The effects of the global financial crisis on the Arab economies reflected the financial crisis on the economies of countries. Arab countries have been affected on the grounds that it part of the global economy and economic ties. It is certain that the degree of impact varies between Arab countries as they relate to the degree of integration into the global economy. About four billion people worldwide find themselves excluded from the protections provided by the rule of law. In urban slums and rural villages, poor people often have no legal identity, no birth certificate, no legal address, no rights to their home or business, and no protection of their labor. It calls for focus on property, labor, entrepreneurial rights and access to justice. As a package, these rights can help prevent legal exclusion and foster economic and reduction in poverty. With rising unemployment, wages are likely to fall, working conditions to deteriorate and labor rights to be violated. This work is a review of the concept of the global financial crisis and its causes, and their impact on Arab economics and people legal protection. Financial crisis is the collapse of the entire financial system accompanied by failure of a large number of financial and non-financial institutions with the sharp contraction in overall economic activity. Protection of law is essential for people living in poverty to shield them against oppression, create economic opportunities, and enable them to secure decent standards of living with dignity.

Keywords: *financial crisis, economy, investments, law, legal protection*

1. INTRODUCTION

What started as a financial disaster in the United States has become a truly global economic crisis. Banks and other financial institutions throughout the world purchased toxic financial instruments engineered on Wall Street in the USA and the world's nations have all now been impacted by the credit crunch. What began as a financial crisis has now impacted the real economy globally. The United Kingdom, Germany, France and other European countries have poured trillions of dollars in taxpayer money into stopping the rot of the world's financial system. The United States has initiated its own costly rescue of Wall Street. However, the global economic crisis is raging out of control and cannot be stopped. China has begun to lay off factory workers. Japan and Singapore have economies that are in recession. In South Korea and other countries, the currencies are collapsing. Iceland is bankrupt. The stock market in Russia has been decimated. The root cause of the economic and financial crisis 2008th was the United States mortgage market selling sub-prime mortgages to large numbers of consumers with inadequate incomes. These mortgages were bundled into securitized paper investments, and sold by Wall Street to major financial institutions across the globe. When the mortgages became non-performing, these securitized assets were transformed into toxic acid, infecting the entire worldwide financial system. The ensuing global economic and financial crisis has destroyed

trust in banks and borrowers in all the major economies of the world. Depositors are withdrawing their money from uninsured and even insured accounts. Coinciding with this massive run on the world's banks, these financial institutions are no longer lending capital to each other, reflected in the rising LIBOR short term inter-bank loan rates. The attempts by the Federal Reserve Bank and Treasury Department in the United States to inject liquidity into the credit market, along with intervention by central banks in many other developed economies, is proving ineffective in responding to the global economic crisis. A growing number of economists are speculating that the global economic crisis will lead to a worldwide recession of such intensity, it may rival the Great Depression of the 1930's in its calamitous economic devastation. Capital is fleeing, and the global credit crunch ensuing has frozen the arteries of a global economy based on easy, cheap credit. As corporations are being denied normal flows of credit, a massive global economic crisis is transforming the financial meltdown on Wall Street into an economic disaster on Main Street. This evolving global and financial crisis and credit crunch will afflict developed and developing economies, leading to massive unemployment, demand destruction and price deflation among many pivotal asset classes. The global financial crisis that emerged in the financial sector in developed countries has spread to the real sector in both developing and developing countries. The crisis in world financial and stock markets has not dramatically affected most African nations. But African continent could experience considerable repercussions as lending and investment abilities tighten in the industrialized world. African financial institutions have, so far, been spared the market-shaking collapses seen in the developed world, because African banks have not engaged in high-risk lending as seen in the United States and Europe. The markets of African countries are not as sophisticated as the markets in the U.S. and Europe, especially when it comes to the securitization of mortgage bonds which are behind this crisis.

2. ROOTS OF THE FINANCIAL CRISIS

The root cause of the economic and financial crisis of 2008 was the United States mortgage market selling sub-prime mortgages to large numbers of consumers with inadequate incomes. These mortgages were bundled into securitized paper investments, and sold by Wall Street to major financial institutions across the globe. When the mortgages became non-performing, these securitized assets were transformed into toxic acid, infecting the entire worldwide financial system. The ensuing global economic and financial crisis has destroyed trust in banks and borrowers in all the major economies of the world. Depositors are withdrawing their money from uninsured and even insured accounts. Coinciding with this massive run on the world's banks, these financial institutions are no longer lending capital to each other, reflected in the rising LIBOR short term inter-bank loan rates. The attempts by the Federal Reserve Bank and Treasury Department in the United States to inject liquidity into the credit market, along with intervention by central banks in many other developed economies, is proving ineffective in responding to the global economic crisis. A growing number of economists are speculating that the global economic crisis will lead to a worldwide recession of such intensity, it may rival the Great Depression of the 1930's in its catastrophic economic devastation. Capital is fleeing, and the global credit crunch ensuing has frozen the arteries of a global economy based on easy, cheap credit. As corporations are being denied normal flows of credit, a massive global economic crisis is transforming the financial meltdown on Wall Street into an economic disaster on Main Street. This evolving global and financial crisis and credit crunch will afflict developed and developing economies, leading to massive unemployment, demand destruction and price deflation among many pivotal asset classes. The global financial crisis that emerged in the financial sector in developed countries has spread to the real sector in both developing and developing countries. The international financial crisis has started to show its effects on every day life. It is like a flood that leaks into the most intimate corner because it turns the material

base over which our lives are built on upside down. Since every crisis is an opportunity also, it is worth reflecting over its causes. The fundamental root of crisis is not in the moral of the individuals. The final solution cannot stem from the angle of increasing the intervention of the State either, unless some fundamental aspects of our economic organization related to money and credit market are not questioned. There are two problems: the risks imposed by the private creation of money over fractional reserves, and the eagerness to permanently maximize benefits. One commonality among the recent crises is that they mostly affected advanced economies with large, internationally integrated financial institutions that were deemed too large and/or interconnected to fail. The large international networks and cross-border exposures of these financial institutions helped propagate the crisis to other countries. Failure of any of these large financial institutions could have resulted in the failure of other systemically important institutions, either directly by imposing large losses through counterparty exposures or indirectly by causing a panic that could generate bank runs. This prompted large-scale government interventions in the financial sector (including preemptive measures in some countries).

3. THE EFFECTS OF THE GLOBAL FINANCIAL CRISIS ON THE ARAB ECONOMIES

As in other parts of the planet, the Arab world is being affected by the global economic crisis. However, the effects and the degree of its impact are being diverse depending on each country and sector. The Arab world is not a homogenous reality; on the contrary, the economic, political, geographic, social, demographic and cultural features of each country make it a highly diverse, heterogeneous and complex region. The multi-faceted nature of the way in which the crisis is affecting the region puts into evidence this complexity. It is certain that the degree of impact varies between Arab countries as they relate to the degree of integration into the global economy. Almost niether of Arab countries is not immune from the repercussions of the crisis on the regulations, economic policies, banking, and their influence directly or indirectly. In this thesis we will divide Arab countries into groups. First group of Arab countries with a high degree of economic and financial openness include Arab Gulf countries (Saudi Arabia, Bahrain, Oman, Qatar, Kuwait, United Arab Emirates), and second group of Arab countries are those with a low-and middle degree of economic and financial openness include Jordan, Egypt, Libya, Tunisia, Algeria. All of the Arab countries experienced rising food prices as well as increases in other costs in the first half of 2008, which badly hit the poor. Consumer prices in Egypt, Jordan, and in other countries rose by an annual rate of 25 % or more during the early months of the year 2008. Food prices rose even faster. The poor had no financial reserves to fall back on, resulting in riots in Egypt, with tensions rising elsewhere as well. Governments in the non-oil producing states or those with small production were not well-placed to help. What assistance they could extend resulted in larger budget deficits. The crisis also cause an increase in poverty in Middle East and North Africa region (MENA). With a significant number of people living above but close to the poverty line, the sensitivity of poverty to external shocks is high. Overall, less than 5% of MENA's population lives on less than \$1.25 a day but some 19% of the regional population lives on less than \$2 a day. Moreover a considerable share of the population hovers just above the poverty line: in 2005, close to one fifth of Egyptians and Moroccans had per capita daily consumption falling into a narrow band between \$2 and \$2.50. This is as many as those who were under the \$2 poverty line in these countries. About 15% of Yemen and Djibouti populations are in the same 0.50 cents a day band. With such deep clustering of large proportions around the poverty line, even a moderate shock represents a serious risk to wider-scale poverty in many countries of the MENA region. In urban slums and rural villages, poor people often have no legal identity, no birth certificate, no legal address, no rights to their home or business, and no protection of their labor.

It calls for focus on property, labor, entrepreneurial rights and access to justice. As a package, these rights can help prevent legal exclusion and foster economic and reduction in poverty. With rising unemployment, wages are likely to fall, working conditions to deteriorate and labor rights to be violated.

4. CONCLUSION

The financial crisis hit Arab countries also as Western countries, but not that hard as USA or European countries (Greece for example). The global crisis was influenced to Arab countries in several ways: financial markets (Financial market was destroyed, many banks were bankrupt in USA preferably, but they were connected with global financial market, and domino effect started from USA. The huge losses recorded by both sovereign wealth funds and private Arab capital in financial markets in the United Kingdom and the United States meant that the stock market crash in September 2008 affected the majority of the Middle Eastern stock markets. Effects of financial crisis in Arab countries were different. The relatively closed financial systems for most MENA countries shielded them from the financial crisis and worldwide economic recession. Economic policies were different in region and they had different impact on economy. The economic crisis and the resulting public deficit has put development and public investment plans, industrialization processes, social policies and public employment at risk. The rise in unemployment is probably the most likely way the economic crisis will become a social one, particularly in those countries with a lower income per capita and lower human development conditions. Protection of law is essential for people living in poverty to shield them against oppression, create economic opportunities, and enable them to secure decent standards of living with dignity. Arab countries must try to be more open to global market and to be much more aggressive as competitor on that market. Also, more employment in domestic market (not only in petrol industry, but also in other industries) is more than desired, i.e. in tourism industry that not fully developed in some of MENA countries (Libya, Algeria). Non petrol producers must develop their economies in some other way, in tourism, food industry, industry of reusable energy sources (wind and/or solar), and to lower their dependency of foreign energy imports.

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LEGAL NATURE OF COMMERCIAL CONTRACTS

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ABSTRACT

For Law of obligations can be said to represent a fundamental piece of legislation that regulates the rights and obligations of participants in business relations. It consists of a general (who addressed the fundamental civil obligations) and the special part (which is about the contractual and non-contractual obligations). The law should be familiar with all the participants of bilateral and multilateral legal transactions because it contained all the things they should know the parties which they intend to achieve legal work. Customers have the freedom of concluding trade agreements only if its provisions are not inconsistent with the Constitution and the laws.

Keywords: *Commercial agreement, contract, obligation, Law of obligations*

1. INTRODUCTION

The Law of obligations (NN 35/2005.; 41/2008.; 125/2011.; 78/2015.) regulates the basis of mandatory and contractual relations and extracontractual relations. Participants in a traffic free regulating civil obligations, but can not edit them contrary to the Croatian Constitution, peremptory norms and morals. Legal provision is such that it can be subsumed under a lot of that (Kačer, Radolović, Slakoper, 2006, p. 17.). Following the principle of freedom to regulate civil obligations as they wish, following restriction on the way to freedom there if this would be contrary to the Constitution, peremptory norms and morals. In other words, this means that there is freedom of concluding trade agreements only if the provisions of that same contract is not contrary to the Constitution and laws.

The contract is a bilateral legal work, which means that the result of the will of at least two parties (Horak, Dumančić Preložnjak, Šafranko, 2011, p. 83.). To the objection was made, the manifestation of the will of the parties must be in accordance with - they must agree on the minimum content of the contract, or the essential elements of the contract. Under the essential elements of the contract means that the minimum content of the contract, without which this particular contract could not exist, and which are determined by the nature of work or the will of the parties. In practice, by the consent of the parties will come, when the contract agree on the content of such contracts to suit the interests of both sides.

The contract is not an isolated act, but an episode in performing tasks; He will often have a background in custom known to all who are engaged in similar negotiations and which is taken to use the language characteristic of a particular agreement. The custom of serving supplement laws; must not be contrary to the express conditions set forth in the contract, but serve as an aid to his purpose. It is no exaggeration to say that most of the modern commercial law based on customs and evolution of the law shows a continuous process, as pointed out by English law, and this is true in general and for other rights, as derived from the comparative review of national trade contracting system and the United Nations Convention on Contracts for the International Sale of Goods (Goldštajn, 1991, p. 88.). Here we should point out that the obligations arising on the basis of legal affairs, causing damage, unjust enrichment, management without a warrant, the public promise of awards and issuing securities. Commitments can arise on the basis of a court decision or other public authority.

The obligation to terminate agreement of the parties in the relationship, by and in other cases determined by law. The termination of the principal obligation is extinguished guarantee, pledge and ancillary rights. The provisions of the Law on obligations related to the agreements apply to all types of contracts, unless the trade agreements did not explicitly otherwise. Commercial contracts are contracts that they enter into dealers with one another in carrying out activities which are part of business at least one of them or in connection with these activities (Šimundić, Franjić, 2015, p. 26.).

2. CURRENCY OBLIGATIONS

The margin is a contractual provision according to which the value of contractual obligations in the Croatian currency is calculated based on the price of gold or currency of the Republic of Croatia in relation to foreign currencies. In this case, if the parties have not agreed a second course, the obligation is fulfilled in Croatian currency according to the selling exchange rate determined by the foreign exchange market or the Croatian National Bank and valid on the date of maturity or, at the request of creditors, on the payment date. If financial obligations contrary to the law read to payment in gold or foreign currency, its fulfillment may be requested only in Croatian currency according to the selling exchange rate determined by the foreign exchange market or the Croatian National Bank and valid on the date of maturity or, at the request of creditors, the date of payment.

3. PAYMENT BEFORE THE DEADLINE

The debtor's monetary obligations can be fulfilled ahead of schedule. Null and void provision of the treaty which the borrower waives that right. In the case of fulfillment of financial obligations before the due date the borrower has the right to deduct from the amount of debt the amount of interest for the time from the date of disbursement to the maturity of the obligation only if it is authorized to do so by contract.

4. TRANSFER OF CONTRACT

Either party may, if he agrees the other hand, transfer the contract to a third person becomes the holder of all of its rights and obligations from this contract. The transfer contract contractual relationship between the transferor and the other goes to the recipient and the other side at a time when the other party has agreed to the transfer, and if the other party has given its consent in advance, at the time when informed of the transfer. Consent to the transfer of the contract is valid only if it is given within the prescribed or agreed form for the validity of the transferred contracts. The provisions on related rights for the contract on takeover of debt shall apply mutatis mutandis to the transfer of the contract. It should be always alert to the formulation in an appropriate manner imposes a great responsibility, but also gives great freedom to the interpreter, because in any case is not about answering the application (which would, of course, it may be easier) than the deliberate application and with full knowledge of both the legal institutions and a lot of legal knowledge in order not to exceed the generally thin line between creativity in interpreting what is desirable and permissible of voluntarism that is absolutely inadmissible and undesirable (Kačer, Radolović, Slakoper, 2006, p. 151.).

5. FULFILLMENT OF CONTRACTUAL OBLIGATIONS

The obligation must be fulfilled lender or person designated by law, court decision, the contract between the creditor and the debtor or the one specified by the lender. Fulfillment is valid and when done to a third party, if the creditor subsequently approved or if it was used.

Obligation filled business inept lender releases the debtor only if it was beneficial to the creditors or the subject of fulfillment is still with him. Business incapable lender may approve, after becoming a business capacity, the fulfillment of which was received at the time of their legal incapacity.

6. FORM OF CONTRACT

The contract may be entered in any form, unless otherwise specified by law. The application of the law to the contract will be concluded in a specific format applies to all subsequent amendments to the contract. Valid later oral amendments to the secondary points on which the contract was told nothing if it is not contrary to the purpose for which he prescribed form. Are valid and later verbal contracts that reduce or relieve the obligations of either party if the special form prescribed only in the interests of the parties.

Any party may request the other to request written confirmation orally concluded contract until the other party fails to fulfill the obligation of contracts. The party requesting a written confirmation of the contract shall provide the other at least two copies of the signed contract with an invitation to return the copy after it is signed. If the called party within eight days of receiving the call does not provide a certificate to another page or by registered mail, this may require the court to establish the existence of the contract and compensation for damages suffered because it was not issued a written confirmation. The contract concluded in oral form is valid, although written confirmation is not given.

Contracts prescribed forms may be terminated by agreement in any form unless it is for a certain case law, provided that the other, or if the goal for which he prescribed form requires that the contract is terminated in the same form.

7. CONCLUDING OF CONTRACT

The contract is concluded when the parties have agreed on the essential elements of the contract. If one is required by law to enter into a contract, the interested party may request that such a treaty without delay sets. The provisions of the regulations, in part or in whole, determines the content of the contract are integral parts of these contracts and they complement or come into place contractual provisions that are not in compliance.

The will to contract may be lodged words, the usual signs or other behavior from which we can safely conclude about its existence, content and the identity of the donor statements. The will to enter into a contract may be declared and using different means of communication. The statement will be made freely and seriously.

When is the conclusion of a contract requires the consent of a third party, the consent may be given before the conclusion of the contract, such consent, or after its conclusion, such approval, if the law does not stipulate anything else. The consent or approval must be given in the form prescribed for contracts whose conclusion given.

The essential elements at the conclusion of the contract are:

1. approval will
2. action is
3. initiative to contract
4. ability to contract
5. defects of the will
6. form contract
7. a general contract requirements

8. condition
9. deadline
10. impost
- 11th down payment and a withdrawal

8. CONCLUDING OF CONTRACT ELECTRONICALLY

The contract was signed electronically when the parties have agreed on the essential ingredients. The offer made by electronic means shall be deemed an offer to present person, if in a particular case can the statement immediately give antistatement. The use of electronic signatures in contract shall be governed by special regulations.

9. TERMINATION OF CONTRACT

By termination of contract, both parties are exempted from its obligations, except the obligation to compensation. If one side has fulfilled the contract in whole or in part, shall be entitled to a refund of what he gave. If both sides have the right to demand the return of a given, mutual return shall be performed by the rules to meet bilaterally binding contracts. Each party owes the other compensation for benefits he has accumulated from what is required to return or compensate. The party who returns the money shall pay default interest from the date when payment is received.

10. NATURE OF CONTRACT

Law of obligations provides that type of contract for which we can say that each of them has its own peculiarities. I will not especially elaborate because of each one of them has a lot to say so to the extent of this study was much higher. It is about the following types of contracts:

- Purchase contract
- Exchange contract
- Contract on the sales order
- Contract on donation
- Loan contract
- Contract on loan
- Lease contract
- Rental contract
- Contract for lifelong maintenance
- Contract lifetimes maintenance
- Action contract
- Construction contract
- Partnership contract
- Contract of carriage
- License contract
- Contract on leave
- Contract on storage
- Contract on order
- Contract on the commission
- Contract on commercial representation
- Contract on intermediation
- Contract on shipping
- Contract on the examination of goods and services
- Contract on organizing the voyage

- Mediator contract for organizing the voyage
- Contract on the available catering accommodation (Contract on allotment)
- Contract on insurance
- Banking cash deposit
- Laying security
- Bank current account
- Contract on safe
- Contract on credit
- Contract on the basis of security
- Credentials
- Bank guarantee on call
- The provisions on banking business

11. NON-CONTRACTUAL RELATIONS

11. 1. Causing damage

Too bad the impairment of one's property (ordinary damage), preventing its increase (subverting the benefit) and violation of a personal (non-pecuniary damage).

11. 2. Unjust enrichment

When part of the property of a person in any way exceed the assets of another person, and this transition is no basis in a legal transaction, a court decision or other competent authority or law, the acquirer is obliged to return it, or, if not possible, to reimburse value its benefit. Under the transition of assets implies the acquisition benefits the executed action. The obligation to return or compensation value occurs when something is received with respect to the basis that did not materialize or that it later fell off.

11. 3. Management without a warrant

Carrying someone else's work without a warrant or authorization can only be accessed if the job does not tolerate delay and ahead damage or leakage obvious benefits.

11. 4. A public promise of reward

Public notice done promise of reward to the one who performs a specific action, achieve some success, he finds himself in a particular situation or to fulfill any other requirement, promiser undertakes to fulfill the promise. Promiser of prize or any prize competition shall set a deadline for the competition, and if it determines, anyone who wants to participate in the contest is entitled to request the court to determine the appropriate deadline.

11. 5. Security

Security is a document which its issuer shall undertake to fulfill the obligation entered into that document its rightful holder. Security form of electronic records specified by law. The provisions of the Law on obligations related to securities issued in the form of a written document shall apply mutatis mutandis to the securities in electronic form, if a special regulation provides otherwise.

12. CONCLUSION

In accordance with national legislation, the participants of mandatory relations freely regulate mutual relations, but can not edit them if they are contrary to law and public morality. Every trade agreement represents a manifestation of the will in accordance with two or more parties aimed at achieving the permitted legal effects of which are located in the development, alteration or termination of someone's legal rights. That depends on successful implementation of contractual relations. These customers need to know and to be respected.

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**ANALYSES OF RISK SPILLOVERS, FINANCIAL CONTAGION,
FLIGHT TO QUALITY AND FLIGHT FROM THE QUALITY AMONG
THE STOCK EXCHANGE MARKETS OF TURKEY AND THE
DEVELOPED AND THE DEVELOPING COUNTRIES BY THE
RECENT DEVELOPMENTS IN THE TAIL DEPENDENCE
MEASUREMENT**

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ABSTRACT

The main purpose of this paper is to analyze the risk spillovers, “flight to quality” from stocks to bonds and “financial contagion” among the stock exchange and bond markets of Turkey and the developed and the developing countries by using the recently developed econometric techniques. By using the Granger causality tests in moments, which was recently developed by Chen (2016), we will investigate the “contagion” and “flight to quality” effects for Turkey and the other financial markets. These tests differ from the Granger causality tests in means and variances in describing the causality in the tails of the distribution and describing their risk spillovers. Thus we can determine whether a negative shock to a market influences the other market positively or not. Throughout the study to represent regional stock markets we will use; Standard and Poor’s Europe Stock Market Index (SPEU), Standard and Poor’s Asia Stock Market Index (SPAS50) and S&P Africa 40. National stock markets will be represented by BIST100 (Turkey), S&P 500 (USA), DAX-100 (Germany), FTSE-100 (UK), NIKKEI 225 (Japan), Merval (Argentina), BOVESPA (Brazil), IPC (Mexico), IPSA (Chile), IDX (Indonesia), S&P BSE SENSEX Index (India). And government bond returns of these selected countries are analyzed in this concept. In this study, we analyze daily index values of these financial markets spanning the period from 1/1/2002 to 2/29/2016. The results of this study will be helpful for analyzing the sensitivity of the risks of the Turkish stock market relative to the other markets over time. They will also be helpful to understand whether there is a flight to quality or contagion when the financial markets are exposed to a risk.

Keywords: *Financial contagion, Flight to quality, Quantile Causality, Equity markets*

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PROCESS BASED APPROACH IN DEVELOPMENT OF AN INNOVATIVE STRATEGIC HUMAN RESOURCE MANAGEMENT

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ABSTRACT

Employees, their knowledge and skills can be considered as one of the most important resources of an organization. Modern technologies and their implementation in organizational processes generate new ways of communication, recording outputs and business events and other relevant parameters of business processes. On the other hand, this also generates big "raw data" which need to be gathered from various sources, analysed, synthesized and translated into operational working guidelines, resulting with the fact that management is becoming a more and more demanding discipline. Therefore, this paper describes the development of innovative models of human resource management by applying a process-based approach. Innovative strategic human resource management model was based on literature review and case study of a fast-growing innovative ICT company with highly competitive employees.

Keywords: *strategic management, human resource management, process-based approach, process model, ICT company*

1. INTRODUCTION

According to Barney and Hesterly (2012, pp 4), the strategic management process is a sequential set of analysis and decisions that can increase the likelihood of a correct strategy selection to a certain extent. Strategic Management Process by Certo and Peter (according to Ullah and Khanam, 2008) deals with five stages: environmental analysis, establishing organizational direction, strategies formulation, strategies implementation, and strategic control. As in the case of the Wheelen and Hunger (2012) process model, there is also a feedback in this process model to identify the deficiencies of individual phases of the process, after which corrective action is taken to eliminate or minimize these deficiencies.

Implementation of the strategy is achieved through operationalization through all organizational levels. Operationalization of the strategy represents a set of all the activities and decisions needed to achieve a previously defined strategic plan. The strategy implementation phase can also be viewed in terms of business process modelling as a process that involves activating all goals, strategies and policies through the development of programs, procedures and rules and other tools that will enable planning and monitoring of strategy implementation, i.e. implementation of continuous control and strategy evaluation. Strategic control and evaluation of the organization seeks to ensure the realization of the strategy, and the results obtained are compared with the desired results and on this basis create feedback that is passed on to management in order to take corrective actions if needed.

The feedback generation model suggested by Wheelen i Hunger (2012) defines what and how to measure, it defines performance standards and data sources. If the actual performance meets the set standards, the process goes to the next cycle, and if the actual performance does not meet the set standards, management must take corrective action to bring the actual efficiency to the desired level. After corrective actions have been taken, it is necessary to analyse whether the corrective actions gave the expected success.

As employees, their knowledge and skills can be considered one of the most important resources of an organization, we can implement the strategic management process in employee management or Human Resource Management (HRM). An effective Human Resource Management Strategy implies a set of activities and decisions that enable continuous investing in employee knowledge and skills to maintain or increase employee performance, and thus the organization's performance. Training and development of employee competencies are aimed at improving the skills and abilities the employee currently possesses and which employees must develop to be ready to perform tasks in the future.

2. HUMAN RESOURCES MANAGEMENT PROCESS

A resource-based resource management suggests that organizations create specific competencies through the implementation of strategies that exploit the internal forces of an enterprise while responding to the opportunities surrounding the environment and minimizing the impact of external threats and internal weaknesses. Bratton's (2012) Strategic Human Resource-Based Management model shows that a company that has resources that are valuable, rare, irreplaceable, and other companies cannot easily imitate uses such resources in the process of formulating a strategy to achieve specific competencies. Human resources represent a resource that contains skills and knowledge that are very valuable, rare, and other companies cannot imitate them. Through the operationalization of such strategies to achieve specific competencies, the human resources development is also encouraged.

The human resource management process is a set of processes and activities whose primary task is to fill the staff and maintain high employee performance. The human resource management process should include all the best practices, standards and procedures needed to help attract and select employees, as well as facilitate the management and development of the skills of employees needed to achieve the organization's goals.

3. METHODOLOGY AND RESEARCH

In this paper, innovative strategic human resource model has been developed according to case study methodology (Yin, 1994). For exploratory case study small software developing company was been used. Company with 13 employees and its growth rate of 35% and annual sale growth of 100% per year. Because of international business and specialization, employees are in ICT company, really the most important resource and the company care about the long-term investments in employees and theirs development. In this paper, the goal was to see how these small companies, with innovative, creative and highly competitive employees on labour market, manage to develop and maintain the best employees. Many authors wrote about business strategy and human resource strategy alignment and strategic human resource management (Lawler, EE, 2005), (McKnight, 2005), (Othman Eyceo, 2009), (Arnold, E, 2010), (Bahtijarević-Šiber, 2014). Armstrong (2006) even describe several models of HRM in practice and Salaman, Storey and Billsberry (2005) has defined the field of HRM. Process of HRM described in all these literature including Management Study Guide (2016) and strategy implementation (McKnight, 2005), resulted in innovative human resource management model.

New innovative HRM model has been developed for the fast growing company based on highly agile and competitive labour force that needs to be managed and driven by long term strategy, because in this small and fast growing ICT companies employees are the working force but also the innovative and proactive force of the company growth and future development.

4. PROCESS BASED INNOVATIVE HUMAN RESOURCE MANAGEMENT

A process based innovative human resource management can be developed through four different processes, these four processes are:

1. HR strategic alignment
2. HR operationalization
3. Managing HR Performance
4. Management of HR Relations.

Human resource (HR) strategic alignment is achieved through an analysis of internal strategic impact factors and factors from the outside environment. The internal factors that need to be considered when planning human resources are: strategic goals, mission, vision, the set of skills and abilities that are currently needed, the skills and abilities that will be needed in the future, the job vacancies, the expansion and reduction of departments, and the like. Factors from the external environment that a company has to pay attention to when planning human resources are: labor markets, competition, political factors, economic factors, labor law changes, technology changes, and the like. Activities that include the process of human resource planning are: recruitment of employees, employee selection, employment, training and employee development (Armstrong, 2006).

HR operationalization allows strategy to be achieved through operationalization of strategic HR goals through all organizational levels. HR operationalization consists of all the activities and decisions needed to achieve a previously defined strategic plan like decisions regarding employees' salaries, incentives, benefits, incomes, and the like. In the process of operationalization of the strategy, employees need to be motivated to perform their tasks successfully. Employees who perform their tasks quickly and efficiently will be rewarded by increasing salaries, gaining certain benefits and bonuses, promoting a better job position, or the like.

Managing HR Performance helps the organization to monitor, train, motivate and reward its employees. Without measuring employee performance, it is not possible to know which employee needs specific assistance in terms of additional education and training. Equally, without measuring employee performance, it is not possible to identify which employees perform their tasks successfully and need to be rewarded accordingly. In this way, the company ensures that employee tasks are performed efficiently, ultimately affecting the company's strategic goals. Performance management does not only have to relate to employees in the enterprise, it can focus on a particular function area, department, product or service. By measuring performance, management is familiar with the current situation in the company and can apply corrective measures at any time if the effect is not satisfactory.

Management of HR Relations can be seen as an additional tool for increasing HR efficiency. The quality of social, educational, hierarchical and another relation among employees often can cause a number of disruptions in the strategic management process, especially in larger organizations that operate in industries where competition between employees is almost natural. Although organizations have various factors that can motivate an individual to be more focused on a business or leave an organization, a small number of those factors can be controlled by an enterprise. Relationships among employees can be improved by improving the working environment, increasing occupational safety, health insurance, managing employee conflicts, providing employee counselling services, team building, and so on (Armstrong, 2006).

It is very important that in the organization there is a certain level of synergy among employees. The organizational climate must support the increase of competence and competition among employees in order to create an environment that will allow the employees to highlight their contribution in achieving strategic goals of their organization. Therefore, continuous monitoring and measurement of employees' performance and satisfaction is needed in order to implement feedback for defining preventive and corrective actions in the strategic HR Management plan. Figure 1 shows the process of innovative strategic human resource management.

In this research process model of strategic human resource management was developed in accordance to BPMN 2.0 standard (OMG, 2017) in BizAgi Process Modeler (BizAgi, 2017). Innovation in this innovative process was achieved in parts of the process where strategic alignment was connected with link symbol (arrow in the cycle) to certain phases of the process not at the end of strategic planning cycle (as usual) for human resource management but it could be corrected during the process cycle. This innovation allows management of organization more thig connection to organizational strategy and allows more flexibility and better response in shorter time to reaction on possible problems in implementing of human resource management strategy from management plan.

For better understanding of process model in Figure 1 all parts/phases and activities were described in following sections.

The process begins with the **analysis of strategic framework** consisting of organizational mission, vision and strategic goals. According to this analysis strategy, it is necessary to **create a strategic human resource management plan** that specifies how the HRM will act as a strategic partner in the strategic management process. Strategic analysis of human resource management functions defines the mission, vision and goals of the HRM, **identifies strengths and weaknesses, and opportunities and threats to human resources management plan**, after which the priorities of necessary changes in the HRM are **defined and individual strategies** for human resources is developed within the HRM Strategic Plan.

Figure following on the next page

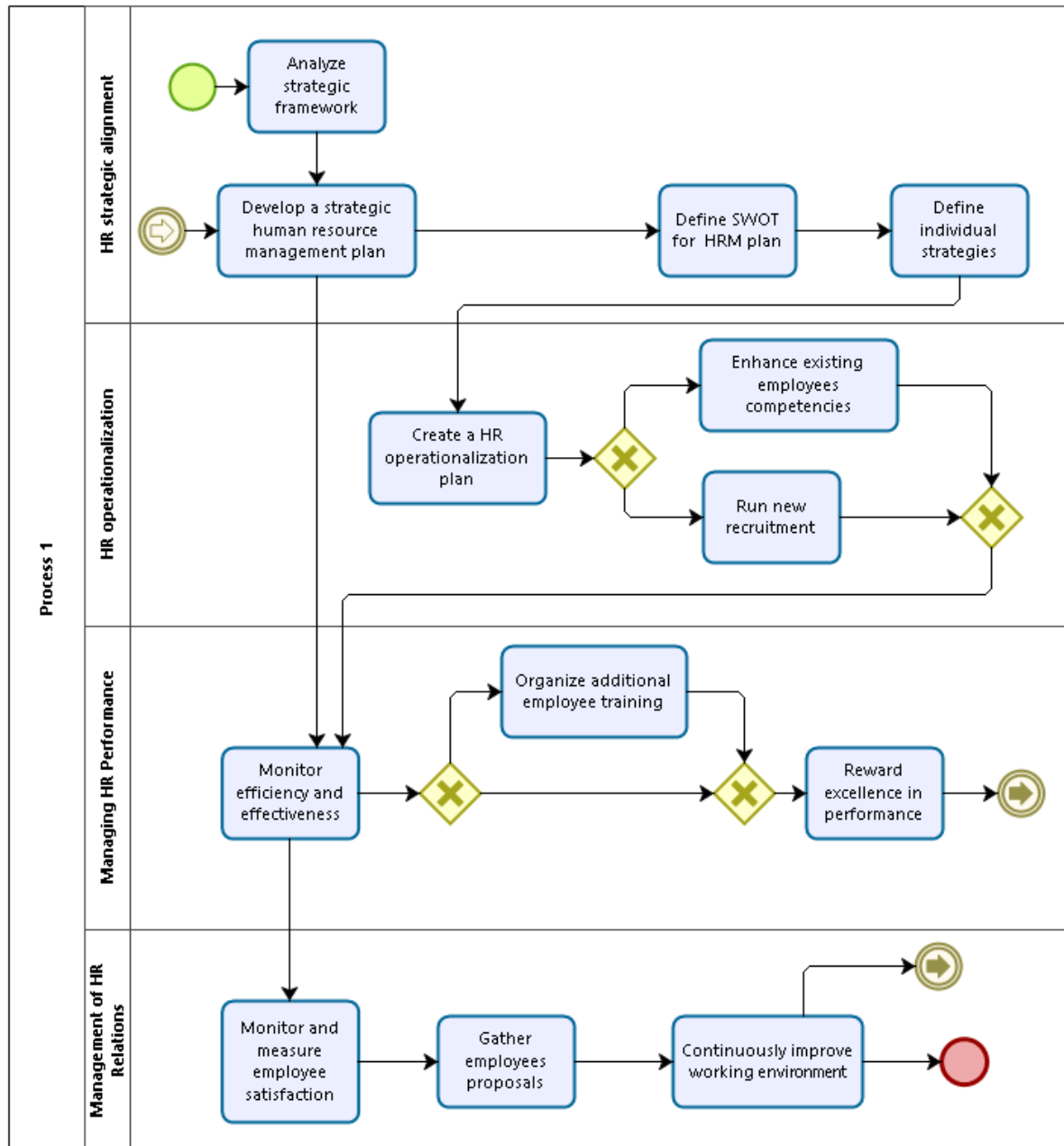


Figure 1: Process of strategic human resource management.

In order, to successfully plan human resources, it is necessary to **create a human resources operationalization plan** that will specify which skills and competencies the candidates must possess. Once the **required workforce is defined** and **job descriptions are defined**, the enterprise must **define positions** that are needed to implement the HR operationalization plan. This means that either **existing employees need to enhance their competencies** through organizational education and skill improvement or that **new recruitment** is needed. After the deadline for submissions, all the position submissions received must be analysed and those applications that do not meet the requirements must be rejected. With the candidates whose job applications meet the set conditions, it is necessary to arrange an interview. After the interview has been made, it is necessary to analyse the data collected on it and to make a decision on whether the candidate meets the criteria set or not. If a candidate does not meet the criteria set, he or she must be notified of the rejection of the job application, if the candidate meets the set

criteria, it is necessary to create a job offer and send it to the candidate. If a candidate fails to accept a bid, the candidate must be notified of the rejection of the job application, but if the bid is accepted, the candidate must be recruited, advised, and informed about his duties in the company.

After selecting and employing the appropriate candidates, it is necessary to **continually monitor their effectiveness and store information on their efficiency and effectiveness**. After that, based on employee performance data, performance analysis is performed, and depending on whether the employee's actual performance is consistent with the desired performance, he makes a **decision on organizing additional employee training**. If the actual performance of the employees is not in line with the desired performance, it is necessary to define the strategy of skills development and the ability of the employee to undertake training and employee development. If the performance of an **employee is in line with the desired performance, they should be rewarded according to their performance**.

Ultimately, it is necessary to **manage relationships with employees, i.e. to establish communication between management and employees**. Satisfaction with the relationship between management and employees needs to be **monitored and measured**, employees need to be involved in the decision making process, their proposals about the working environment needs to be gathered in an appropriate manner, and **changes in the working environment according to their proposals should be continuously implemented**.

5. CONCLUSION

In order to, achieve strategic goals of an organization, human resources management strategy must be aligned with organization's business strategies. By assuring this alignment, the organization succeeds in equipping employees with skills and knowledge appropriate to the current and future needs of the organization. That is why the strategic framework (mission, vision, strategic goals) must be the starting point for HR planning and management.

Another important factor for efficient HR management is the operationalization of a strategic framework into individual employee strategies. Bringing strategic goals to all employees enables them to understand how their work contributes to achieving the company's strategic goals. The successful operationalization of the organization's business strategy depends on various factors like organizational structure, organizational culture, policies, programs and procedures, but this paper emphasizes the need for strategic focusing when defining work activities, strategy based measurement and rewarding system, employee motivation, continuous monitoring and measurement, as well as a feedback options during the strategic human resource management process cycle. This innovation allows agile response on possible issues in human resource management strategy implementation by activating a workflow, which includes preplanning preventative and corrective actions of the HRM plan.

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COST AND BENEFITS OF WEBSHOP IMPLEMENTATION FOR SMEs IN FIRST THREE YEARS

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ABSTRACT

Modern business is almost impossible to imagine without of presence on Internet and some form of e-business or e-commerce. Modern sales promote and large companies have already developed a web shops or web stores and have used a large portion of e-business / e-commerce. Small and medium-sized businesses still in large manner base their business model on physical stores and there are still in the phase of introducing modern technologies. Most of today's SMEs have a websites and a smaller part of them own a web shop as a separate sales channel. Some of them have based their business model entirely on web shop but large part of older "brick-and-mortar" stores still introducing the new ways of business. This research examines what are the typical costs and benefits of introducing web shop and what kind of costs and benefits would be needed to expect in first three years from implementation of web shop in small and medium-sized enterprises.

Keywords: *cost and benefits, webshop, implementation, e-business, SMEs*

1. INTRODUCTION

The Internet is being used by third of the population (Howe, 2012). With the highly increased rate of the Internet users, opportunities in the field of trade are growing exponentially. Customers increasingly use online shopping services. According to eMarketer research results from 2016 "retail ecommerce sales of products and services ordered via the internet over any device - will reach \$1.915 trillion in 2016, accounting for 8.7% of total retail spending worldwide" (eMarketer, 2016). Online shopping is beneficial from the perspective of the both, seller and buyer. According to Yell Business (2016) benefits of webshop include: reduced overheads (webshop costs less to set up and run than a physical shop), lower marketing costs (it is cheaper, to send a marketing message by e-mail), expanded geographical reach (business can easily become international through effective strategy), being open for business 24/7 (buyers can shop anytime), greater flexibility, broader potential customer base, improved customer profiling (e-business represents new buying channel), increased visibility for your business (segmenting customers and providing personalized offers), the ability to tell people about your business, another marketing channel. Transformation from a physical store to webshop has received considerable attention from practitioners and researchers. Increasing interest for this domain is also notable in the scientific research. E-business has changed practice through huge financial investments and affected scientific research in large extent (Heim and Sinha, 2001).

Motivation for online shopping has been well researched (Childers et al., 2001; Koufaris, Kambil and LaBarbera, 2001; Wolfinbarger and Gilly, 2001; Rohm and Swaminathan, 2004). However, the rate of profitability of the new phenomenon is still relatively low scientifically covered.

The aim of this paper is to answer the question: "How implementation of the webshop affected the various types of businesses, especially SMEs and whether and during which period after the implementation was financially worthwhile?" Within this paper, an analysis of the feasibility of introducing e-business into a new retail channel was conducted. In order to collect data for cost-benefit analysis and determine the needs, benefits and costs of introducing e-business, analysis was conducted on the basis of a number of webshops. Possibilities and assumptions of future processes in Internet commerce as a new retail store are discussed. In addition, in order to collect data on real costs and the effects of the implementation of webshops, research has been carried out on a larger sample of existing companies that already have active webshops alongside the physical store/s.

2. LITERATURE REVIEW – E-BUSINESS AND E-COMMERCE

E-business is the most modern form of business organizations today. Organizations focused on the gaining better market positions and intensive investment in business development strive to implement e-business. The main motives for introducing e-business are the aspiration to make better use of all available resources, better positioning of the organization in the market and gaining more profit by introducing ICT into business.

E-business occurred in the 1970s, but its expansion is achieving in the last twenty years as a result of the ever-increasing use of the Internet when many businesses have used the benefits that it offers. IBM first used the concept of e-business in 1977 when creating its own marketing campaign. E-business is a modern form of business organization, which implies the intensive use of IT and, in particular, of Internet technology in achieving all key business functions of an enterprise (Kovačević, 2010). E-business brings number of advantages: where e-business is applied, employees in the organizations are more educated, organization strives for technological development, which greatly contributes to future development and indirectly contributes to a better position on the market. Given that e-business is based on Internet technology, the advantage of using it, is to provide better market transparency by providing insight into products and their features, such as pricing, availability, payment terms, simplifying business across markets (locally, regionally, globally). Participants who use e-business include companies, end-users and government agencies, and accordingly there are different types of e-business:

- B2C (Business-to-Consumer) - business of end-user businesses
- B2B (Business-to-Business) - Business between Businesses
- C2C (consumer-to-consumer) - business of individuals to each other
- G2B (Government-to-Business) - a business where state and public sector companies appear as bidders and private companies as buyers
- B2G (Business-to-Government) - a business where state and public sector companies appear as buyers of goods and services provided by private companies

E-business is applied in almost all business activities, some of which are: Internet commerce, electronic payment, electronic communications, electronic production and electronic distribution. Hereinafter we focus on the e-commerce. E-commerce belongs to B2B and B2C type of e-business.

Term webshop is the subset of e-business and refers only to the performing of the trade activities on the Internet, whereas e-business includes broader concept of intensive business activities conducted electronically. Webshop enables buyer to merchandise from the seller in real-time via the Internet.

Webshops have been experiencing a great expansion in the last few years. In the Republic of Croatia, also its number is growing every day, especially of recession, which requires any kind of way to win a customer and earn a profit. Webshops are not geographically limited such as classical shops and can attract customers around the world such enabling organizations to reach its presence on the global market. Webshops have many advantages, both for business organizations and customers.

Some of the benefits of webshop introduction to the organization are: access to the new unlimited market, lower running costs. Through the online sales channel, there is unlimited number of potential customers in a certain place of residence, 24 hours of business - no working time to limit sales and buyers have the option of buying 24 hours a day, seven days a week - including days when classical shops do not work. Furthermore, there are no limitations on the amount of items that fit into a physical outlet, customers have easier and quicker access to product information because they do not have to go shopping around and look for a particular item and its information. Customers can find all available product information on the internet store and if they have additional questions, communication between the buyer and the seller is quicker and simpler.

There are also some disadvantages. For instance, in clothing industry, inability to try out clothes. The buyer has to wait several days for the clothes be delivered to his address. In addition, if the buyer finds a fault on the item, he or she is unable to return and replace the item again at the same time, rather than carrying out a cash or replacement process, which may also take several days. When a buyer chooses the size of an item, it is possible to have an incorrect estimate and it does not match the receipt. Sometimes the loyalty of pictures on the Internet does not match the product itself. In reality, it may look "cheaper", the colour may be different, causing customer insecurity when shopping through the internet store.

Despite aforementioned shortcomings, the advantages of Internet commerce are more emphasized and those are the factors of profitability of its introduction. The aim of the empirical research presented here is to conduct an analysis that leads to the answer how implementation of the webshop affected the various types of businesses especially SMEs and whether and during which period after the implementation was financially worthwhile?

3. METHODOLOGY AND RESEARCH DESCRIPTION

The aim of the empirical research is to conduct an analysis that leads to the answer how implementation of the webshop affected the SMEs businesses and whether and during which period after the implementation was financially worthwhile ?

In order to collect data about real costs and benefits of the Internet retail trade application, a survey has been conducted on a number of existing companies that already have an active webshop with the existence of a physical shop or more stores.

The aim of the research is to determine is it profitable for organization to introduce webshop and determine which opportunities brings expansion with the new sales channel on the Internet. Costs that occurred before, during and after of implementation were also explored in terms of: webshop solution procurement and web site design, cost of own resources as support to external

ICT service providers, costs of additional external services or services such as hosting, domain rental, photographic related costs for products ... etc. In the end, the system maintenance costs were also explored.

The survey was conducted in August 2016, through an online questionnaire with 22 questions previously tested in two structured interviews with responsible persons in two organizations that had introduced a web shop. Thus, a set of questions on the questionnaire was tested and information on the intelligibility of online questionnaire was obtained. Sample consisted of 69 companies from three counties: Zagreb, Varaždin and Međimurje County. These companies have an active web shop and one or more physical shops.

Link on the online questionnaire was e-mailed to the all companies with the basic research information. Furthermore, companies were contacted by phone and asked for permission to participate. Questionnaire was made in Google Forms. Research was conducted in the period of three weeks. Eleven companies refused to participate. Finally, 21 valid and fully completed questionnaires were collected.

4. RESEARCH RESULTS

Survey data collection was conducted among companies with webshops for the purpose of the feasibility analysis of webshop introduction. Response rate was 30% (21/69). Characteristics of the companies from the sample are following:

- Most of the companies is in the retail and service industry.
- Average number of employees in whole sample is 27, with 3 companies as outliers (number of employees is 58; 65; and 340). If we remove outliers, average number of employees in the sample is 15.
- 75% of the companies were founded after year 2000 and in average are 15 years old.
- Average number of physical shops per company is 1.9, whereas one company has 8 physical shops.
- Companies were classified according to the type of the company (see Figure 1): craft, micro company (up to 10 employees), small company (10 to 50 employees), medium-sized company (50 to 250 employees) and large company (more than 250 employees).

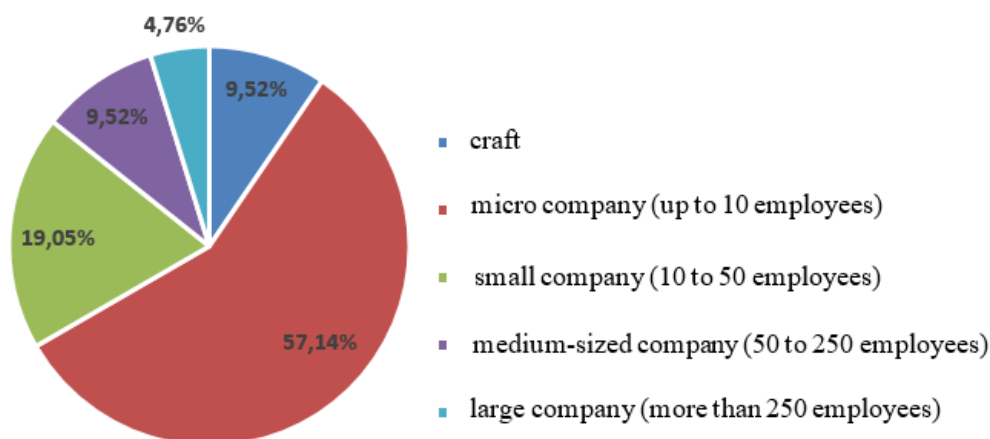


Figure 1: Percentage of respondents by type of company

In Figure 1, structure of sample according to company type could be seen and we could see that there are dominating micro companies and small companies. In manner of how long has been gone from introduction of webshop 91% of the companies from the sample introduced webshop in year 2010 or after and in average the webshop is in use 3.3 years (one webshop is active from 2001, average without of outlier is 2.6 years). Research was conducted in August 2016.

The cost of webshop purchase is the cost that a company is willing to pay for its own trade. The cost of ownership depends on many factors, while the most important is quality of the webshop itself, the visual identity that plays the most important role in attracting customers and other functionalities that make it easier to use by customers.

The cost of webshop (Figure 2), regardless of the type of company, were in average 4200 euro (Croatian average month salary in year 2016 was 720 euro). By looking at the types of companies, the largest average cost of introducing Internet commerce was at medium-sized enterprises, and the smallest average cost was at crafts.

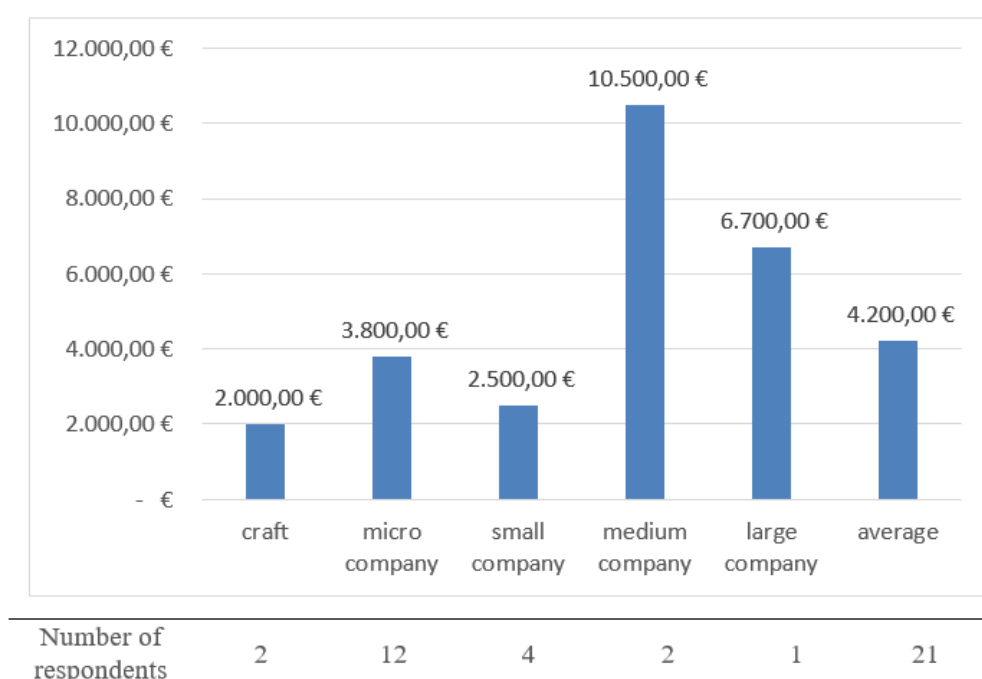


Figure 2: Average costs of webshop by company type

Costs of hosting (rental of web space) per year and maintenance costs (modification / supplement) of the internet store annually are presented in Figure 3. Costs of hosting and maintenance represent the costs the company pays on an annual basis to make the web shop accessible to visitors and to function properly and technically.

The average annual hosting costs amount are 420 € (blue), while the average cost of maintenance are 530 euro (red). The least cost of hosting and maintenance was in crafts and medium-sized companies while other types of businesses vary widely. There is also a large difference in cost between hosting and maintenance, which may be the reason that webshops, with higher maintenance prices, are at a more complex technical level and that webshops owners have more desires to introduce additional functionalities.

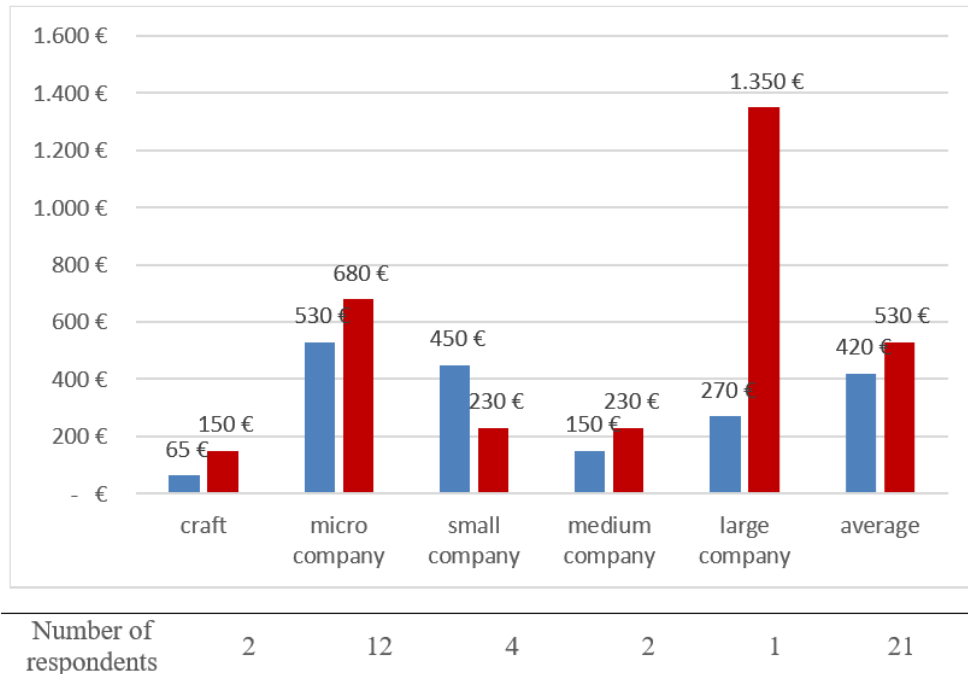


Figure 3: Average annual webshop costs of hosting and maintenance by company type

Additional cost, taken in consideration were the cost of own resources (blue) on introducing the webshop and the amount of additional costs of other vendors (red) related to the webshop (Figure 4).

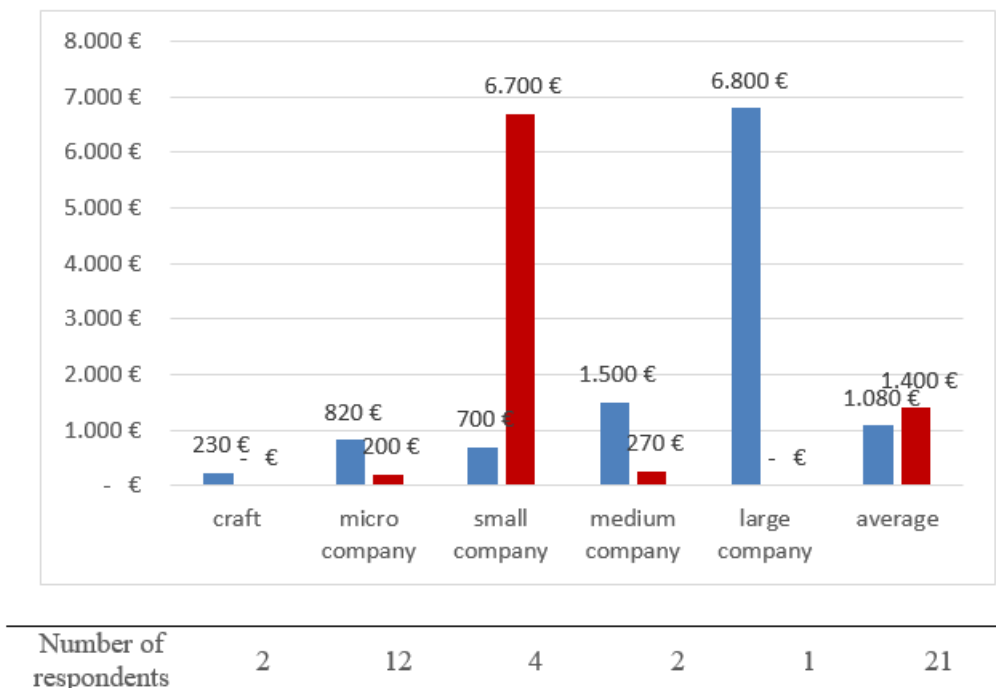


Figure 4: The average cost of own resources and other suppliers

The cost of own resources (blue) is the cost that a company invests only when it launches an internet store, including employee time spent on deals, documentation completion, internal

meetings, etc. The amount of additional costs of other suppliers (red) are the costs that the company pays for cost such as the photo service, card payments, translation of text etc.

In Figure 4 it could be seen that largest costs of own resources had large companies and smallest crafts which is natural, in average cca 1080 euro. As far as additional average costs are concerned, in this case of crafts the respondents (n=2) stated that they did not have additional external costs, while the small companies (n=4) had in average the highest additional average cost of 6.700€ which is more than initial cost of webshop purchase. This mean that there webshop content was more expensive then the initial web system on which it is presented. Average cost in this category for all respondents were 1400 euro.

After consideration of cost by all categories presented in figures 2, 3 and 4 benefits are also investigated. First, total annual turnover of companies were taken in consideration and by time before and after the introduction of webshop. Respondents needed to answer what was the annual turnover in the year of webshop introduction or before intruduction (year 0), than after first year of introduction (year 1) and finally in third year after introduction (year 3). Estimating the total annual turnover before and after the introduction of webshop is important because it can be seen whether the introduction of an internet store has an impact on increasing or decreasing of it. Respectively the increase is not necessary result of webshop introduction but it could be bust by this new sales channel.

Figure 5 presents annual turnover increase in year zero, first and third year and percentage is growth in accordance to year zero (year 0) before introduction of webshop. By this, we could conclude that companies in the sample have grown in average 21% in three years period after they introduce webshop.

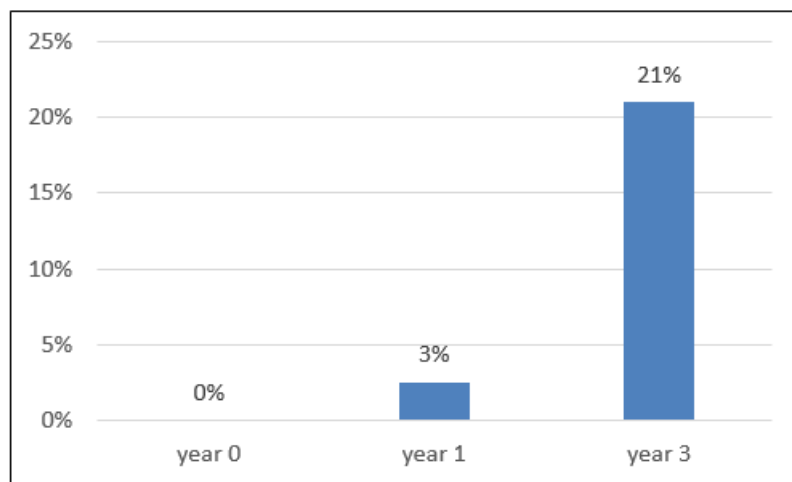


Figure 5: The average increase of annual turnover in first three year of webshop introduction

Finally, results of this research could be seen (in Figure 6) as portion of sales achieved in physical stores in retail, wholesale and by Internet (webshop) before introduction of new sales channel through the Internet respectively webshop. Results were also made according to respondents answers in fiscal year of introduction (year 0), one year after introduction (year 1), three years after introduction (year 3) and finally in last fiscal year (year 2015) before this research was conducted. Respondents estimated portion of sales in every sales channel.

Looking at Figure 6, it is apparent that the craft sales, before the introduction of the webshop, were exclusively through physical stores (in average they have 1 physical store), whereas from the year of introduction until the third year the percentage of sales increased in favour of the webshop from 1% (year 1) up to 15% of all sales (year 3). In last fiscal year 2015 that was 25% of all sales.

Micro enterprises have been realized most of their sales through physical stores before or in the year of webshop introduction (year 0), small part through the webshop in the same year of introduction and rest was wholesale sales. An average percentage of their sales through the webshop was 3% (in year 0), 15% (in year 1) and 27% (in year 3) of all sales after introduction of webshop. In last fiscal year (year 2015) webshop portion of all sales was in micro enterprises 24% what shows a stability of Internet sales and its importance for micro companies.

Small companies before webshop introduction (year 0) realized its sales exclusively in physical stores and wholesale. In year after introduction 4% of all sales go through webshop (year 1) and in third year 17,5% of all sales go through webshop (year 3) same as in last fiscal year (year 2015). In addition, in 3 year after the introduction of the webshop, Internet sales took over part of the wholesales, which was entirely done by e-commerce (webshop in this case).

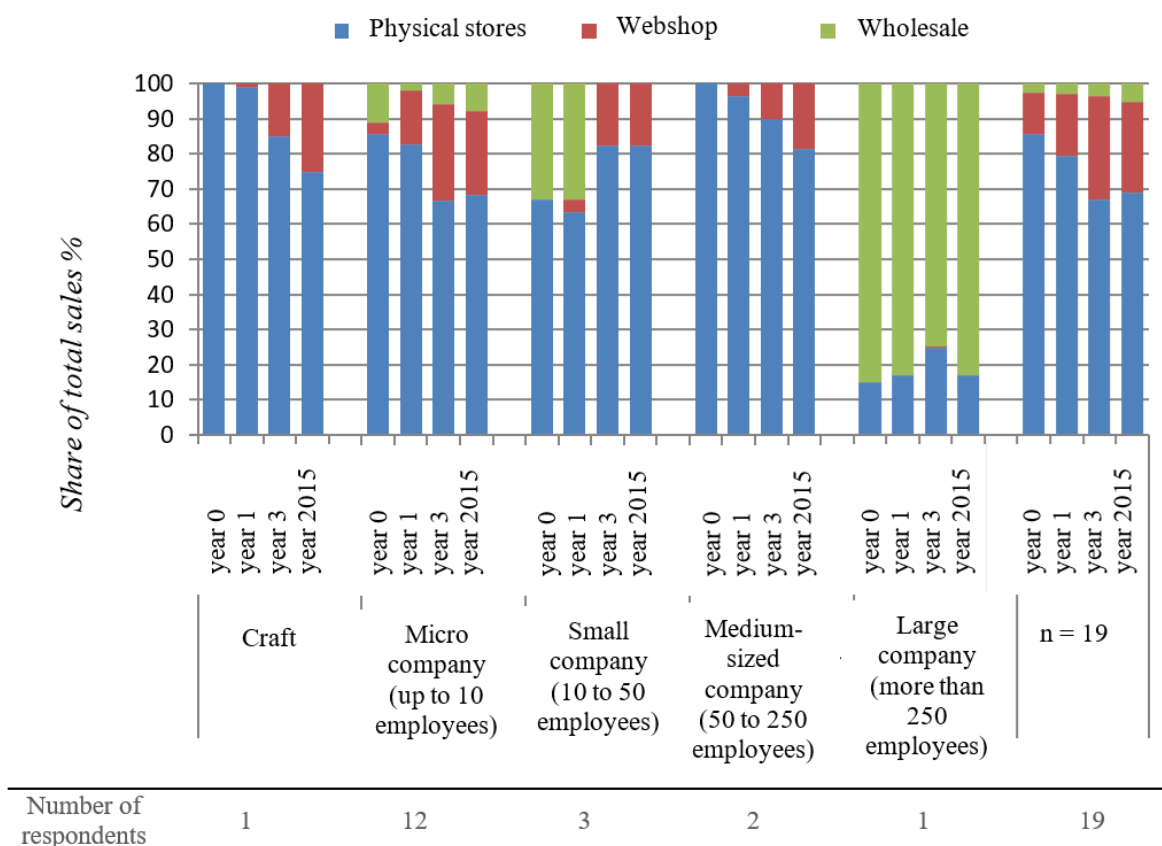


Figure 6: Share of total sales realized in physical retail stores, wholesale and webshop trade

Middle-sized companies sales was all in physical stores before the introduction of the webshop and gradually increased after the introduction of webshop (3,5% in year 1; 10% in year 3 and finally 18,5% of all sales in year 2015). Middle-sized companies (n=2) in sample had not have wholesales, just retail shops before and after webshop introduction. Large company (n=1) sales were made all exclusively in physical stores and wholesale so the benefits of webshop could not be seen. We presume that webshop was a sales channel for B2B and not made for retail at all. Unfortunately respondents in this category (n=1) did not explain this any further. As a conclusion, it could be stated that, on average, after the introduction of webshop, sales was growing each year (for n =19 not all respondents answer this question entirely) except in the last fiscal year (year 2015) when the average sales in physical stores increased and the webshop trade decreased. Average growth rate of webshop portion in all sales was 11% (in year 0) what means that even in the year of introduction the webshop made a large portion of sales. In first year after introduction webshops sales was in average 17,5% (year 1), and in third year (year 3) webshop portion were 30% of all sales. In year 2015 (last fiscal year of research webshop sales was stable at 26% of all sales.

5. CONCLUSION

This paper introduced analysis of webshop implementation viability through the period of 3 years after the introduction. Analysis is performed based on the data collected among companies with physical shop/s and webshop. Research results indicated that implementation of e-commerce among 21 companies affected the increase off turnover in average from 3% after first year of usage of new online sales channel to 21% at the end of third year after webshop introduction. As indicated in results for average company in previous chapter webshop sales portion in all sales was in average present 11% in year 0 – year of introduction, 17,5% in year after introduction (year 1) and with 30% in third year after introduction (year 3). This means that in three years new sales channel gain approximately 1/3 of all sales and that means that all investments in "new store" make large increase of income and due to smaller cost per year than average "brick and mortar" store it return the investment in less than 3 years period. In average all cost of webshop in period of three years (purchase 4200€ + (three years maintenance and upgrades (420+530)*3) + own resources at introduction 1080€ + external services 1400€ is all together equal to 9530 euro for 3 years. This mean that all costs of new technology in 3 years period are less than, in most cases, cost of 1 year of physical store space (building) without of utilities (heating/cooling, water, etc.). Analysis did not include sales process cost, human resource in these processes and the potential cost reductions in processes but it could be topic in further research steps. The conducted cost-benefit analysis can serve as an insight into the current business situation of various types of mainly SMEs that have introduced or have in plane to implement webshop as mean of e-commerce and thus set the foundation for further business decisions.

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RISK MANAGEMENT IN GLOBAL SOURCING

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ABSTRACT

In this paper, we highlight how, in the context of the internationalization of enterprises, new paradigms are emerging as the recent logics of the global sourcing, virtual enterprise and research for location advantages and distinctive competencies on a global scale. Global sourcing is one of the most important strategic challenges for enterprises, which to reduce costs have shifted their procurement activity, from the local suppliers to suppliers in countries so-called "low-cost". However, the global sourcing process is full of difficulties and risks, often overlooked, that does not always translate into savings of purchasing total costs. The methodology used is based on a comprehensive view of the supply chain which, theoretically shareable, it is rather difficult to implement because of its evolutionary dynamics and the different objectives, often conflicting, of the actors involved. The construction of adequate basics, and systems of knowledge and coordination of the principles governing the management of processes and measurement of operational performance mechanisms are now widely recognized as a performance measurement system, and a significant competitive advantage. The results allow a company to analyze the trend had in the past, and be an instrument for the definition of future improvement targets. Thus, it is important to define a measuring system for monitoring, coordinate, control and identify responsibilities by providing for internal and external risks of individual decision-making processes inherent in a complex situation such as the Supply Chain.

Keywords: *causal loop diagram, global sourcing, supplier selection, supply chain risk management*

1. INTRODUCTION

The phenomenon of markets globalization, of the last decade has really aroused in companies the need to use all the resources worldwide available, and global sourcing is not only an important strategic lever, but also a great boost for innovative companies, both in their organization and at operational level (Buckley, Casson, 1976, p. 27). Moreover, like every internationalization process, it can be extremely challenging (Baldassarre, 2012, p. 31), as requires a comparison with different realities and provides the opportunity to discover new cultural models. Of course, there are not only advantages. In fact, these processes implicate a number of complexities and risks for the company due to the increase of actors and operations, difficulties of controlling and managing processes located in widely separated areas. Thus, global sourcing (Brockwell, 2008, p. 42) consists in the enlargement of the supply markets to take advantage from the opportunities offered by low-cost countries and requires the development of an integrated system for the management of logistics and inventory, supply quality and performance monitoring. The trend in all sectors of industry to extend its global supplier base is an established phenomenon and constantly growing. Therefore, global sourcing is a process in which all companies are facing and, in particular, the low cost countries.

2. METHODOLOGY

The methodology used is based on a comprehensive view of the supply chain which, theoretically shareable, it is rather difficult to be implement because of its evolutionary dynamics and different objectives, often conflicting, of the involved actors. The construction of adequate bases, and systems of knowledge and coordination of the principles governing the processes management and measurement of operational performance mechanisms are now widely recognized as a performance measurement system, and are significant competitive advantage. However, it is important, not only to identify the most appropriate set of indicators, but to define a measurement system for monitoring, and thus, to identify responsibilities by providing for internal and external risks of individual decision-making processes, inherent in a complex reality such as the Supply Chain.

3. THE RISK IN THE SUPPLY CHAIN

Global sourcing has been a significant cost reduction strategy for many companies over the past ten years, initially in the manufacturing sector and, more recently, in the service sector, particularly in Information Technology. National security concerns, however, have led many companies to review their global sourcing strategies regarding the products and strategic services. The economic dynamics of recent years, have led to a global situation in which, in many cases, the place where, a good can be produced at the most advantageous cost does not coincide with the market to which this good is destined (Kotabe, Murray, 2004, p. 11). Consequently, the interaction between industrial systems, production and logistics has taken in many areas, the role of the key requirement for the survival of a company, whether large or small. The production chains (or supply chain) have been extended from one end to another of the globe as never before, searching for far away suppliers, research often justified by the opportunity to reduce direct production costs. A further essential contribution to the problem of reciprocal dependency were given during the 90s by the spread of lean approaches. These have taken a very important role in the industrial sector: driven by the pressing demand for efficiency improvement, companies were induced to review and rethink their processes, bringing both a reduction to the extreme limit of stocks of products and materials. However, volatility and financial turmoil and political, socio-cultural changes, the demanding consumer behavior, the continuous and fast development of new products, over the years, have seriously compromised some of the key assumptions of the concept of lean, which requires stability the market, stable and lasting relationships with suppliers, repeated productions. Despite all this, many supply chain managers have historically focused attention and efforts - and, in some cases, are still continue - only on improving efficiency and on reducing costs, at the expense of an increased risk of business interruption. Hong and Holweg (2005) discuss the many issues facing managers today, such as how to achieve cost efficiency, where to locate operations, and a variety of questions related to sourcing. The Figure 1 created on the data of the survey conducted by AMR Research shows that the perception of risk is greater at management level due to the supply of raw materials, transportation costs, partners provide on the quality and delivery. Moreover, by adding the globalization and some exasperated management approaches it is understandable that the major risks to the supply chain are reflected very often in the interruption of core business flow or closely related activities (Lysons, Gillingham, 2003). Although do not questioning the usefulness and effectiveness of the lean type management policies, an efficient and lean supply chain is a desirable goal, but that should not be pursued at the expense of reliability of the supply chain itself (Scicutella, 2012). For this reason, the theme of risk management in supply chain is one of the main problems that companies are upon called to find a solution, ensuring continuity of supplies and their punctuality, benefits enjoying of lean practices.

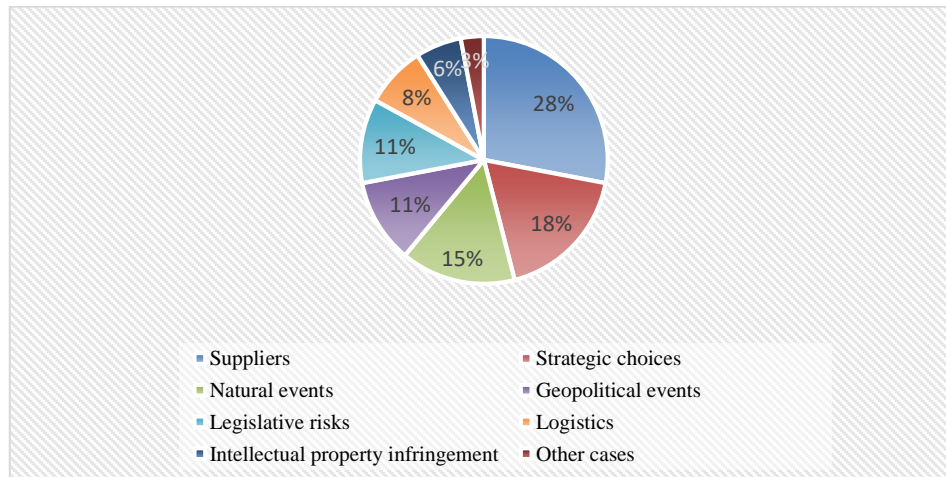


Figure 1: Relevance of different types of risk perceived at managerial level
 Source: according to ANIE (2014)

It is increasingly evident that, multiplying reciprocal interconnections also increase the sources of potential disturbances of its business flow, which may lead to business interruptions, effectively indicated by the term business disruptions. Because a Supply Chain is a complex system in which is not possible isolate the statically effects, it is necessary to adopt an integrated and systemic approach. This allows to perceive and understand how a change in one part of the system inevitably reverberates on other parts, and thus to optimize the performance, is necessary to identify all the variables and how any risks can alter their performance. The Supply Chain Risk Management (SCRM) definition expressed by the Supply Chain Council is the managing risk in the supply chain is the systematic identification, assessment and quantification of the potential disruption of the supply chain in order to control the risk exposure and reduce its negative impact on performance. It includes the continuous development of strategies to control, reduce or eliminate the risk. The term risk in the supply chain refers to the uncertainty related to the realization of an event that may be of interest to some partners in the supply chain, adversely affecting the achievement of business objectives. The concepts, widely known, as the risk and its management represent for a company and especially for companies that apply the Supply Chain a most critical point, than is necessary to apply the related concepts. The concept of risk expresses at least two key factors: a) the relative uncertainty on the events occurrence and b) its losses in monetary terms. Thus, we can define risk as the measure of the probability that an event will occur in a given time interval. The combined measure of probability and relevance is defined as risk degree (or level) that is, the product of the probability of an event occurrence and its impact. High degree of risk, therefore, may be due to different combinations of probability and consequences. Managing the risk means fit suitable preventive measures to limit the probability of occurring of risk event or in the case of a risk event in order to limit their consequences. Manage or not manage the risk can have diametrically opposite effects, as represented in Figure 2. The graph shows that the occurrence of a risk event (point 1), the company's performance began to decline negatively, and to recuperate, by restoring enforcement actions (point 4), without, probably reaching the former condition - ante (point 5). The benefits of risk management does not entail benefits only when it is relating to the management of serious events, difficult to solve, but very often the smallest risks, repeated and frequent generate serious consequences, although more manageable.

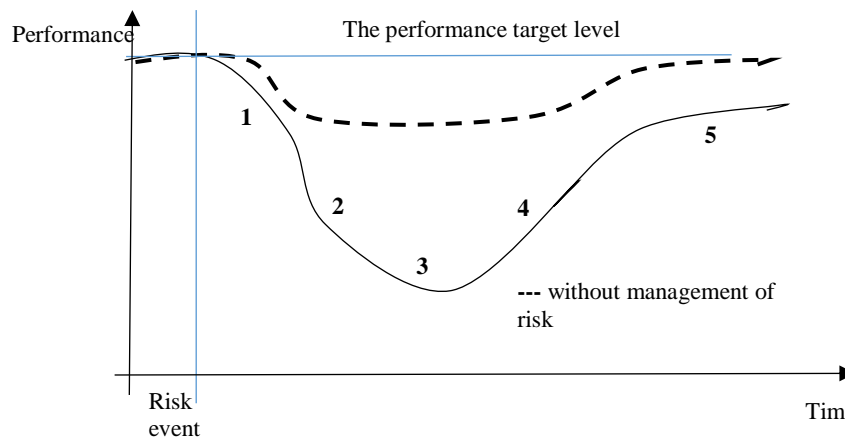


Figure 2: Risk management impact on the performance

4. CAUSES AND RISK MANAGEMENT

Some of the causes that make the supply chain vulnerable to the risks can be identified: a) the fragility of the company system and the entire supply chain to increasing adverse events, influencing its production and distribution, due to the stocks reduction to reduce costs; b) the global dimension of the supply chain with production phases in various countries, especially in developing countries and geographically distant; c) the individual product characteristics and the centralization of distribution, to achieve greater economies of scale; d) reduction of suppliers number, to a few or only one, to increase the capacity of control and the human factor, which in his doing can causing risks as the incorrect decisions in an automated system; e) the tendency to outsourcing for primary activities and the progressive outsourcing of ancillary activities that involves risks and loss of control over company activities (Kotabe, Mol, 2006).

A basic element for the construction of a supply chain resistant to the risks is to train employees on the disturbance response procedures, and, in addition, often the risk management is understood as a task to be carried out only in case of events or special situations. In fact, risk management has all the characteristics of a real process that develops continuously throughout the life cycle of the business, and in this regard are manifold contributions to the definition of a possible risk management process, of which that shown in Figure 3 represents a synthesis. In this process, there are the strategic objectives and company vision or the entire supply chain, in which the six identified elements that guide the entire process must be standardized. The next steps aim to provide a robust approach to the implementation of a risk management process. It is necessary, in fact, a continuous risk monitoring and ongoing evaluation of the effectiveness of the management plan and risk register. The risks require a periodic review to ensure that changes in certain circumstances do not alter the various risk priorities taking into account that only a few risks can be considered static.

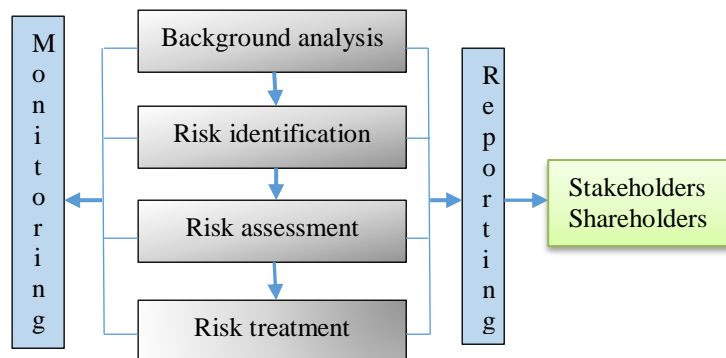


Figure 3: Example of a risk management process

Often, it is considered that at the basis of the supply chain risk it is the complexity given by the system dimension and the combination of factors, but in fact also by systems produced from a few simple elements. In fact, the risk can be generated by interaction of system elements that lead to changes within the system that is not about a single element, but simultaneously the links between system elements. Therefore, risk management in a dynamic and complex system as a supply chain requires a systemic approach, which supports the management in the identification and management of connections and bonds that make interdependent the whole and its parts, which often can escape in a first analysis, conducted in a not adequate manner.

One of the tools can be the causal loop diagram (CLD) or system diagrams, which allow to describe in a direct way as "are working" some complex systems. These diagrams show how a change of one factor within a system can affect other parts of the system, influencing the trend by highlighting the existing cause / effect relations of the various elements. A CLD is a representation consisting of a set of variables interconnected by arrows that indicate the causal influence among the same variables. This influence can be direct, when a variable variation involves changing "in the same sense" of the linked variables or reverse, when a variable variation involves changing "in the opposite direction" of associated variables.

In Figure 4, the variations in the same direction are indicated with "+" sign, while those in the opposite direction are pointed with the sign "-". The CLD of Figure 4 expresses the dynamics of the law of supply and demand. A price increase (positive variation +) results in a reduction in demand (negative variation -), while a decrease in demand (negative variation -) results in a reduction the price (negative variation -) and consequently, it is possible to interpret the link between price and demand.

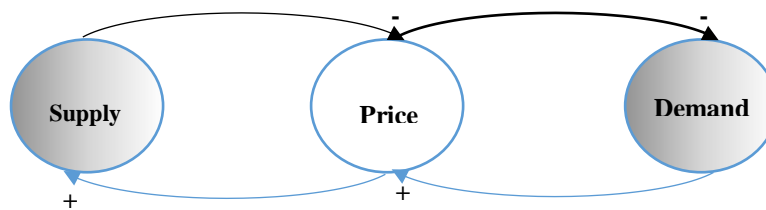


Figure 4: Causal loop diagram and the basic law of supply and demand

5. STRATEGY AND DECISION CONTROL

To understand the decision at the operational level, we first need to know the relationships between the results (cost / service) and the main "levers" controllable at the disposal of supply chain operators. The operational decision concerns the size batch production or purchasing, and relate it to a variable that measures the level of customer service. Normally, the larger batch purchasing generates, for the same average demand, an increase of stocks with a consequent increase of availability for the client and accordingly we can say that the level of service (availability of the product and the lead-time of delivery) increases with the increase of the batch size (variations in the same direction, "+"). Increasing the service level, management could be driven to increase further the batch size, thus creating a loop, which would tend to increase continually the orders size. At the same time, greater stock entail higher maintenance costs, which push towards a reduction of the batch purchases size, such as by blue line of the diagram in Figure 5.

Figure following on the next page

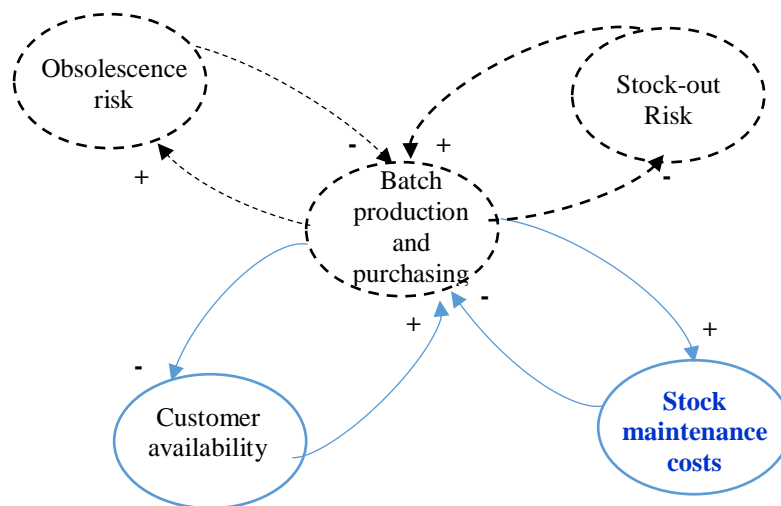


Figure 5: Factors in determining batch size

Further, we can think that the batch increase decreases the stock outs risk, which however, would push towards additional cost increases. Simultaneously, can increase the obsolescence risks of fresh products or fast technological aging. Therefore, we immediately notes that the choice of optimal batch purchase / product must take into account all these risk factors acting in a manner antithetical to each other. Considering the tactical / strategic level decisions in a supply chain, must identify the main factors intervening to determine the best final decision as, for example, the choice of the degree of stocks centralization within a network distribution. In consequence, is essential to identify the factors that contribute significantly to the specific choice. Identifying as a variable lever, the choice of the degree of stocks centralization and put it in relation with the stocks maintenance costs results that the maintenance of stocks generally tend to decrease the costs depending on the increase of the centralization degree, due to the pooling effects inventory (Figure 6).

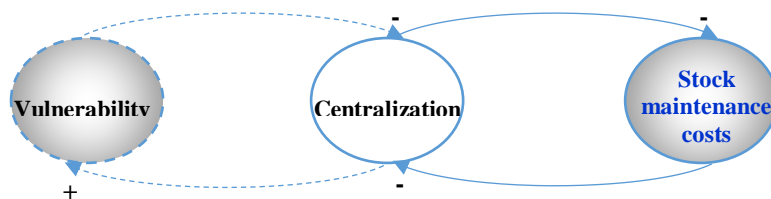


Figure 6: Choice of stock centralization

This loop if considered singularly could lead to total centralization of stocks. However, the centralization leads to a potential vulnerability of the system (dashed line in Figure 6), which can effectively be described as the risk of standardizing all. In the extreme case of centralized stocks in a single location, this decision would block all supplies, with no other active sites in the cargo storage system. To describe the effect of decisions and control policies can be used the CLD approach, simple tool but at the same time very useful in a complex environment such as a modern Supply Chain (Van Weele, 2009). Subsequently, we consider a system in which the lever variable is identified by the number of supplier from whom they are supplying. According to Figure 7, it is noted that the decision to increase or not the number of suppliers is three-loop function.

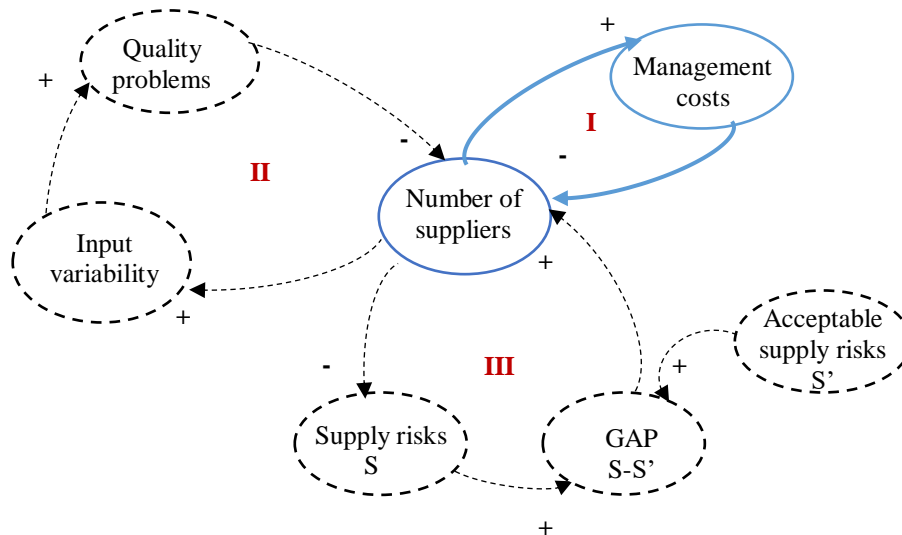


Figure 7: Factors affecting the number supplier selection

The first loop is between the number of suppliers and the management costs, in which the increase of the first also increases the second.

Conversely, an increased management cost pushes towards a reduction in the number of suppliers and this is not enough to make a decision. In the second loop, we consider factors such as the variability of input in terms of quality in which the greater number of suppliers increases the probability that the quality is inhomogeneous. Even this case there is a push towards a reduction in the number of suppliers. In the third loop we examine the risks related to the supply in which with the increase of the number of suppliers, the system is less vulnerable to possible critical, of one of them. However, taking into consideration this single element can be think as a possible choose of increasing the number of suppliers to reset potential supply risks. For this reason, is introduced a control variable called GAP (Figure 7) which represents the difference between the supply risks (specified by S) and supply risks deemed acceptable (indicated by S'). By increasing the GAP, it is possible to intervene on the lever variable, to bring back the GAP within acceptable values.

6. CONCLUSION

Thinking about outsourcing, in so-called low cost countries, companies should consider more carefully the existing risk factors (Grossman, Helpman, 2005, p. 139) and to weigh these risks and the potential benefits along with more immediately apparent factors such as the costs and delivery times. In fact, in the face of a number of potential benefits, there are also many risks in the global sourcing. These can often lead to failures or limit the adoption of such a strategy where not always to internationalize the purchases allows for better performance, this because, on the one hand is not always easy to globalize effectively, on the other hand because it can also be competitive with a base of local suppliers. It is important, therefore, that the company that wants to globalize their purchases takes into account not only the simple difference in the cost of labor or purchase, but make a dynamic evaluation focused on assessing the total cost of ownership of global supply (Meixell, Gargeya, 2005, p.537). In fact, often, when choosing to purchase in international markets, are neglected or underestimate the costs related to transport, customs duties, increase of stocks due to longer delivery times, to insurance, to the management of financial transactions, to consulting connected, the need for greater controls. Therefore, it is important in the phase of analysis and management, a careful monitoring of all the components of costs induced by the choice of supplies abroad. In addition, there is then a risk of operational

nature that regards the labor productivity, the logistics costs and the quality of the product. Against a lower cost of labor is important to assess their productivity, while also taking into account that the cost advantage tends to decrease over time because of inflation and the increase in prosperity in these countries. Then there is a risk due to lack of infrastructure in developing countries, country risks, cultural distance that can be decisive in the success of global sourcing initiative. It is important do not underestimate these potential risks, and when deciding for sourcing abroad is necessary to assess and mitigate the various sources of risk.

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