

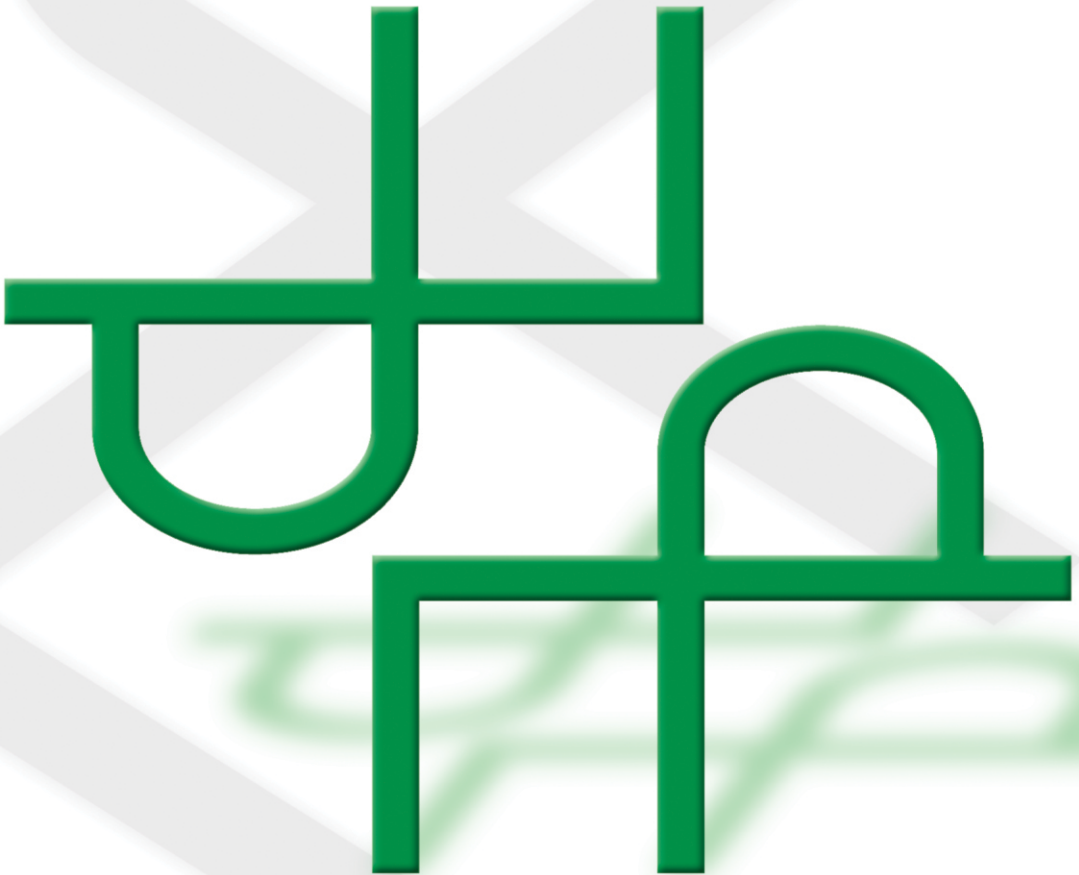
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# ЕКОНОМИКА

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2



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МЕЂУНАРОДНИ ЧАСОПИС  
ЗА ЕКОНОМСКУ ТЕОРИЈУ И ПРАКСУ И ДРУШТВЕНА ПИТАЊА



# ЕКОНОМИКА

Часопис излази четири пута годишње

Година LXIV, IV-VI 2018, број 2

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1. Часопис “Економика” покренут је јула 1954. године и под називом “ Нишки привредни гласник” излазио је до јуна 1957. године, а као “Привредни гласник” до краја 1969. године. Назив “Наука и пракса” носио је закључно са бројем 1/1973. год. када добија назив “Економика” који и данас има.

2. Часопис су покренули Друштво економиста Ниша и Друштво инжењера и техничара Ниша (остало као издавач до краја 1964. године). Удружење књиговођа постаје издавач почев од броја 6-7/1958. године. Економски факултет у Нишу на основу своје одлуке броја 04-2021 од 26.12.1991. године постао је суиздавач “Економике”. Такође и Економски факултет у Приштини постао је суиздавач од 1992. године. Почев од 1992. године суиздавач “Економике” је и Друштво за маркетинг региона Ниш. Као суиздавач “Економике” фигурирали су у току 1990-1996. године и Фонд за научни рад општине Ниш, Завод за просторно и урбанистичко планирање Ниш и Корпорација Винер Брокер Ниш.

3. Републички секретариат за информације СР Србије својим Решењем бр. 651-126/73-02 од 27. новембра 1974. године усвојио је захтев “Економике” за упис у Регистар новина. Скупштина Друштва економиста Ниша на седници од 24. априла 1990. године статутарном одлуком потврдила је да “Економика” има статус правног лица. На седници Скупштине Друштва економиста Ниш од 11. новембра 1999. године донета је одлука да “Економика” отвори посебан жиро-рачун.

4. Према Мишљењу Републичког секретариата за културу СР Србије бр. 413-516/73-02 од 10. јула 1973. године и Министарства за науку и технологију Републике Србије бр. 541-03-363/94-02 од 30. јуна 1994. године “Економика” има статус научног и ранг националног часописа “Економика” је поћев од 1995. добила статус међународног економског часописа.

5. УРЕДНИЦИ: др Јован Петровић (1954-1958), Миодраг Филиповић (1958-1962), Благоје Матић (1962-1964), др Драгољуб Стојиљковић (1964-1967), др Миодраг Николић (1967-1973), др Драгољуб Симоновић (1973-1984), др Миодраг Јовановић (1984-3-4/1988) и др Драгољуб Симоновић (1990-до данас).

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1. The journal EKONOMIKA was initiated in July 1954. It was published as "Nis Economic Messenger" till June, 1957 and as "The Economic Messenger" till the end of 1969. The title "Science and Practice" it had till the issue 1/1973 when it changed its name into EKONOMIKA as it entitled today.

2. The Journal was initiated by the Society of Economists of Nis and the Society of Engineers and Technicians of Nis (the latter remained as the publisher till the end of 1964). The Society of Accountants became its publisher starting from the issue no. 6-7/1958. The Faculty of Economics, Nis, on the basis of its Resolution No. 04-2021 from December 26, 1991, became the co-publisher of EKONOMIKA. Likewise, the Faculty of Economics of Pristina became the co-publisher since in 1992. Starting from 1992, the co-publisher of EKONOMIKA has been the Society for Marketing of the Region of Nis. Other co-publishers of EKONOMIKA included, in the period 1990-1996, the Foundation for Scientific Work of the Municipality of Nis, the Institute for Spatial and Urban Planning of Nis and the Corporation Winner Broker, Nis.

3. The Republic Secretariat for Information of the Socialist Republic of Serbia, by its Resolution No. 651-126/73-02 from November, 27, 1974, approved of EKONOMIKA's requirement to be introduced into the Press Register. The Assembly of the Society of Economists of Nis, at its session on April 24, 1990, by its statutory resolution, confirmed the legal status of EKONOMIKA. At the session of the Assembly of the Society of Economists, Nis, on November 11, 1999, the resolution was adopted the EKONOMIKA was to open its own bank account.

4. According to the Opinion of the Republic Secretariat for Culture of the Socialist Republic of Serbia No. 413-516/73-02 from July 10, 1973 and the Ministry for Science and Technology of the Republic of Serbia No. 541-03-363/94-02 from June 30, 1994, EKONOMIKA has the status of a scientific and national journal. Starting from 1995, EKONOMIKA has been having the status of international economic journal.

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## SUSTAINABILITY OF THE STATE AID CONTROL SYSTEM IN SERBIA

### Abstract

*The category of state aid and the state aid control system as a pre-accession obligation of Serbia in the process of integration into the European Union and as a subsystem of competition protection policy are gaining actuality and importance in Serbia starting from 2010, with the beginning of the implementation of the Law on State Aid Control. The aim of the paper is to examine the sustainability of the system of state aid control in Serbia eight years after the beginning of the implementation of the law. In this paper, through a comparative analysis of the way of functioning, legal regulation and state aid granted in the European Union and Serbia, the advantages and disadvantages of the national state aid control system are highlighted.*

**Key words:** state aid, Serbia, European Union

**JEL classification:** H250, H500

## ОДРЖИВОСТ СИСТЕМА КОНТРОЛЕ ДРЖАВНЕ ПОМОЋИ У СРБИЈИ

### Apstrakt

*Категорија државне помоћи и систем контроле државне помоћи као предпрступна обавеза Србије у процесу интеграције у Европску унију и као подсистем политике заштите конкуренције, добијају на актуелности и значају у Србији почев од 2010. године, са почетком примене Закона о контроли државне помоћи. Циљ рада је сагледавање одрживости система контроле државне помоћи у Србији осам година након почетка примене закона. У раду се, кроз компаративну анализу начина функционисања, правне регулисаности и додељене државне помоћи у Европској унији и Србији указује на предности и недостатке националног система контроле државне помоћи.*

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## Introduction

State aid is still a relatively new category in the domestic scientific and professional public. Namely, while there is a long history of developing a state aid control system at the level of the European Union (EU), state aid has been gaining importance in Serbia since 2010, with the adoption and the beginning of the application of the Law on State Aid Control. The establishment of a state aid control system is important pre-accession obligation of Serbia in the process of the EU integration.

State aid is one of the forms of implementing the interventionist policy of the state, but this institute can not be identified with the much broader concept of state interventionism. Motivated by a broad spectrum of goals, the state can use different measures to intervene in the economy and help enterprises, sectors and regions. A state can intervene on the market in three ways. One of the ways is financial support to economic entities realized through direct transfers to enterprises, investment, low-interest loans, tax exemptions. The second way is related to the establishment of rules and regulations by the state, or its regulatory policy. The third method relates to the direct provision of goods by the state, such as infrastructure and other public goods. Only the first form of state intervention in the form of financial assistance to economic entities is considered as state aid.

The concept of state aid is considered in the paper through several steps. The first, the concept of state aid, basic categories and instruments of state aid allocation, the basic stages in the development of the state aid control system, as well as the link between the state aid control and the competition protection policy are described. The way of functioning of the system of state aid control in the EU, as the most efficient existing system, is considered, and the achieved results and perspectives of the further development of the state aid control system in Serbia are examined. Finally, an overview of the data on state aid granted in the European Union and Serbia is given.

## Theoretical concept of state aid

The concept of state aid is interpreted in different ways. Interpretations are ranging in practice from those wider, according to which the state aid is each financial advantage of the beneficiaries receiving aid, to the narrower, according to which state aid is any measure that strengthens the competitive position of the recipient of aid and distorts competition. The granting of state aid implies that the state, in order to encourage appropriate economic activity, is beneficial, i.e. it places certain economic entities in a privileged position (Kesner-Škreb, 2003, p. 158). State aid is, therefore, a form of selective state intervention by which beneficiaries are favoured in relation to the competitors. State aid has the ability to distort markets and undermine competition (Kassim & Lyons, 2013, p. 2). The control of state aid is aimed to ensure equal conditions of business for all economic entities (Krstić & Stanišić, 2013). Hence, the control of state aid is an integral part, that is, the subsystem of competition policy.

State aid may be granted for the various purposes, and the main reason for its use is the correction of market failure (Podsiado, 2016, p. 388). The basic forms of state aid

are horizontal, regional and sectoral (Stojanović & Stanišić, 2015). Thereby, horizontal state aid is intended for all enterprises in an economy, not for selected and predefined sectors and regions. Horizontal state aid is focused on research and development, environmental protection, assistance to small and medium-sized enterprises, training, culture and is considered a state aid that has the least negative impact on the conditions of competition in the market. Regional state aid is allocated with the aim of stimulating the economic development of underdeveloped and less developed regions. Sectoral state aid is intended for predetermined, or well-known entities in particular sectors or sectors. Due to this highly selective character, sectoral state aid also carries the greatest risk of distorting competition on the market (Stojanović et al., 2014, p. 90).

State aid can be realized in the form of various instruments. It does not only include subsidies, as the most well-known and most often used instrument for granting state aid, but also guarantees, various types of tax relief, loans under more favorable market conditions, purchase by state or sale of state property under conditions more favorable than market ones. Because of the possibility that state aid disturb competition in the market, it is necessary to control its allocation. In addition, from a global point of view, different countries and institutions have different logic of access to state aid control. For example, for the United States of America, the lack of a state aid control system is characterized. At the EU level, this system is in constant development and is becoming more and more restrictive. Requirements for the existence of a functional state aid control system are not only valid for the existing EU Member States, but have been extended to potential members.

## **Development of the state aid control system in the EU and Serbia**

State aid control is one of the specific aspects of the EU competition law (Stojanović et al., 2013, p. 166). The central objective of the European Union rules on state aid is to prevent competition in the internal market (Jansen, 2016, p. 575). State aid control is one of the instruments of competition policy and state aid control plays a fundamental role in defending and strengthening the single market (Bartniczak, 2016, p. 18). In addition, the need for a common competition policy and state aid control came at the beginning of realizing ideas about the community. By establishing the European Coal and Steel Community in 1951, it becomes clear that it is unjustifiable for Member States to provide priority to these sectors through various types of subsidies and state aid. This institutional experiment quickly pointed to the need to regulate other sectors of the economy (Stojanović, 2003, p. 53). Thus, in 1957, the Treaty establishing the European Economic Community was signed in Rome, which established the rules on the control of state aid in Articles 87 and 88. The rules on the control of state aid at the EU level are now regulated by the Treaty on the Functioning of the European Union. State aid is regulated by Articles 107 and 108 of this Treaty. The prohibition of state aid is confirmed by Article 107(1). Exemption from the fundamental principle of prohibition is regulated by Articles 107(2) and 107(3) (Consolidated versions of the Treaty on the Functioning of the European Union, p. 91). The absolute right of the European Commission (EC) to regulate state aid is laid down in Article 108 (Blauberger, 2008).

Therefore, the authority responsible for the implementation of the state aid control system at the European Union level is the European Commission (Stojanović & Stanišić, 2014, p. 88). The European Commission is responsible for monitoring the European market to ensure that competition between undertakings is free and fair (Tasan-Kok et al., 2013). The focus of state aid control is the behaviour of Member States (Blauberger, 2011, p. 28). The EU Member State must every state aid plan reports to the commission. Any unreported state aid will be considered as illegal. The responsibility of the European Commission is to examine the justification of these plans and make a decision. After completing the procedure for examining the justification of state aid, the European Commission can essentially make two types of decisions, positive and negative. The decision can be also conditional. This implies that specific state aid can be considered as justified and that the European Commission can change its decision to a positive one only if a Member State fulfils certain additional requirements. Despite the satisfactory efficiency that has been confirmed in practice, the European Commission's operation and the EU state aid control system are the subject of continuous improvement by the various types of reforms.

Following the example of the practice of the European Union, Serbia has acceded to building a system of state aid control. In Serbia, the implementation of the state aid control system is part of the pre-accession obligations of Serbia in the process of integration into the European Union and began in 2010, with the beginning of the implementation of the Law on State Aid Control (Kerković et al., 2016, p. 160). The law represents a framework for the establishment of the system, and its provisions are elaborated in more detail in the Regulation on Rules for State Aid Granting, initially adopted in 2010 and amended in 2011 (Regulation on Rules for State Aid Granting, 2011).

The authority responsible for the implementation of the state aid control system in Serbia is the Commission for State Aid Control, which also started operating in 2010 (Stanišić, 2016). This body was entrusted with controlling state aid measures until Serbia's prospective accession to the European Union (Jovanić, 2017, p. 137). The Commission consists of five members and is formed by the Government on the proposal of the ministry responsible for finance, the ministry responsible for economy and regional development, the ministry responsible for infrastructure affairs, the ministries responsible for environmental protection and the Commission for Protection of Competition. The representative of the ministry responsible for finance is also the president of the Commission for State Aid Control, and the representative of the Commission for Protection of Competition is the vice president (Law on State Aid Control, p. 2). Such a composition of the Commission for State Aid Control can lead to the question of the provisions of the Law that the Commission must be operatively independent in its work, and suggests that this provision is not essentially significant and introduced to meet the form and demands of international experts which recommend the establishment of an independent monitoring body.

## **Comparative analysis of state aid granted in the EU and Serbia**

In order to examine the potential effects of established regulations and state aid control system in Serbia, Table 1 gives a comparative overview of the share of state aid granted in gross domestic product (GDP) in the countries of the European Union

and Serbia in selected years. Data for 2016 are available for countries of the European Union. In Serbia, the last adopted report on the granted state aid is for 2015. The report for the previous year was not adopted in 2017. This breaks the previously established positive practice of publishing reports on state aid granted each year, which is also a legal obligation of the regulatory body.

*Table 1: Total state aid as % of GDP in the EU Member States and Serbia*

geo\time	2005	2010	2015	2016	Difference in 2016 compared to 2005	Average 2005 – 2016
Austria	0.39	0.60	0.52	0.52	0.13	0.51
Belgium	0.32	0.59	0.48	0.57	0.25	0.49
Bulgaria	0.11	0.05	0.73	0.61	0.50	0.37
Croatia	/	/	0.60	0.95	/	/
Cyprus	1.14	0.48	0.68	0.66	-0.48	0.74
Czech Republic	0.42	0.63	1.15	1.30	0.88	0.88
Estonia	0.13	0.10	0.95	0.82	0.69	0.50
Finland	0.40	0.46	0.75	0.76	0.37	0.59
France	0.43	0.68	0.71	0.63	0.19	0.61
Germany	0.69	0.61	/	/	/	/
Greece	0.32	0.77	1.24	0.36	0.04	0.67
Hungary	1.19	1.87	1.17	1.95	0.76	1.54
Ireland	0.38	0.57	0.16	0.14	-0.24	0.31
Italy	0.37	0.20	0.18	0.18	-0.19	0.23
Latvia	0.60	0.83	2.20	1.46	0.86	1.27
Lithuania	0.14	0.31	0.80	0.84	0.69	0.52
Luxembourg	0.14	0.19	0.29	0.27	0.13	0.22
Malta	2.96	1.13	0.99	0.55	-2.42	1.41
Netherlands	0.25	0.32	0.26	0.26	0.00	0.27
Poland	0.39	0.80	0.78	1.01	0.62	0.75
Portugal	0.85	0.84	0.49	0.34	-0.52	0.63
Romania	0.56	0.15	0.77	0.61	0.04	0.52
Slovakia	0.67	0.37	0.52	0.44	-0.23	0.50
Slovenia	0.44	0.80	1.09	0.74	0.30	0.77
Spain	0.52	0.40	0.21	0.20	-0.31	0.33
Sweden	0.89	0.78	0.71	0.78	-0.12	0.79
United Kingdom	0.18	0.26	0.35	0.48	0.30	0.32
EU (28 countries)	0.45	0.50	0.63	0.67	0.22	0.56
Serbia	1.57	2.64	2.60	/	/	/

Source: [http://ec.europa.eu/competition/state\\_aid/studies\\_reports/studies\\_reports.html](http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html),  
<http://www.kkdp.gov.rs/izvestaji.php>

Based on the data presented in Table 1, it can be concluded that in most countries of the European Union, except for Hungary, Latvia and Malta, the average share of total state aid in GDP in the observed period does not exceed one percent. With its EU membership, Croatia accepted European rules and practice of granting state aid, so the participation of state aid in BDP in 2015 and 2016 is in line with the European average, 0.60% and 0.95% respectively. In 2005, Serbia had a share of 1.57%. In the first year of implementation of the Law on State Aid Control, this share was at a significantly higher level, 2.64%. Despite the expected tendency of reducing the share of total state aid in GDP with the establishment of a state aid control system, the latest available data indicate relatively high share of total state aid in the GDP of Serbia.

## Conclusion

Eight years after the implementation of the Law on State Aid Control and the establishment of a state aid control system in Serbia, appropriate conclusions on the sustainability of this system can be summarized and systematized appropriate recommendations. The existence of the system and the basic starting assumptions of its functioning is an important step forward. However, it is necessary to work on increasing the institutional and operational independence of the Commission for State Aid Control. It is necessary to redefine its role and responsibilities as an operational, independent body in order to ensure the full implementation of the state aid rules in the following period. The function of the commission must be moved from a formal to an essential, which includes a more rigorous attitude on the justification of state aid.

Further efforts to establish a functional state aid control system may involve adapting the law in a way that will enable the Commission for State Aid Control to be essentially independent and with increased competencies. It is also necessary to activate the discretionary, already legally prescribed right of the commission to order the return of unlawfully granted aid. Further adoption and completion of secondary legislation is a necessary condition for the effective implementation of law and for better coordination between state aid policy and other segments of the economic policy.

In addition to the fact that the share of total state aid granted in GDP at the level of the European Union is below one percent in the whole observed period, the latest available data indicate the tendency of its further reduction. In Serbia, eight years after the implementation of the Law on State Aid Control, a relatively high share of total state aid in GDP is recorded, without a marked decrease. The relative positive trend in Serbia in relation to the period before the adoption of the law is to increase the share of horizontal state aid, as the most preferred form, in the structure of total aid. Maintaining this trend, with decreasing the share of total state aid in GDP, is challenge for the state aid policy makers in Serbia for the next period.

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## EFFICIENCY EVALUATION OF THE FUNCTIONING OF AN ENTERPRISE'S VALUE CHAIN AS A CRITERION FOR THE CHOICE OF A SUCCESSFUL STRATEGY OF MARKET COMPETITION

### Abstract

*Nowadays, an important issue, taken up by both researchers and practitioners in the field of business management, is to find whether an applied method of value creation produces the anticipated effects (value added), not only from the perspective of the enterprise itself, but most of all, from the point of view of the ultimate customer. The aim of this article, on the basis of a profound analysis of literature on the subject being conducted, is to present an interpretation of the term of efficiency, which is explained differently and examined in relation to the given perspective (area of science). Moreover, in the article, there is an interpretation of the term of an efficient value chain of an enterprise given; in addition to that, various types of applicable approaches to the efficiency evaluation of a value chain of a business are presented, in a synthetic manner. Apart from showing several approaches, different criteria, which can be used while making an appraisal of efficiency of a value chain at different levels, were also depicted. This topic was taken up by the Author, taking into consideration the growing importance, which business managers attach to the implementation of measurement and assessment of efficiency of a value chain. It is an important problem from the perspective of selection or preparation of a successful model, allowing for a multidimensional evaluation of efficiency of management of the existing value chain of an enterprise, as well as the decision-making associated with the choice of a type of strategy, which would result in a company gaining or maintaining the competitive advantage in the market.*

**Key words:** efficiency, value chain, efficient value chain of an enterprise, efficiency evaluation of a value chain, criterion of evaluation

**JEL classification:** L1, L6, M2

## ЕВАЛУАЦИЈА ЕФИКАСНОСТИ ФУНКЦИОНИСАЊА ЛАНЦА ВРЕДНОСТИ ПРЕДУЗЕЋА КАО КРИТЕРИЈУМ ЗА ИЗБОР УСПЕШНЕ ТРЖИШНЕ СТРАТЕГИЈЕ

### Апстракт

*Значајно питање које су данас покренули истраживачи и практичари у области управљања пословањем је да ли примењена метода стварања*

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*вредности производа даје предвидљиве ефекте (додатну вредност), не само из перспективе самог предузећа, већ и, пре свега, са гледишта крајњег купца. Циљ овог рада је да, позивајући се на анализу постојеће литературе о предмету рада који желимо да објаснимо, представи интерпретацију појма ефикасности која се објашњава и истражује у оквиру посматране перспективе (области науке). Штавише, у раду је представљена интерпретација појма ефикасности ланац вредности предузећа. Поред тога, представљени су и различити типови применљивих приступа евалуације ефикасности пословног ланца вредности на систематичан начин. Поред тога, приказани су и различити критеријуми који за оцењивање ефикасности ланца вредности на различитим нивоима. Ову тему смо покренули, узимајући у обзир све већи значај који менаџери дају имплементацији мерења и оцењивања ефикасности ланца вредности. Ово је важан проблем из перспективе избора или припреме успешног модела, који обезбеђује вишедимензионалну процену ефикасности управљања постојећим ланцем вредности предузећа, као и одлучивање које се тиче одабира врсте стратегије, што омогућава да компанија стекне или одржи конкурентску предност на тржишту.*

**Кључне речи:** ефикасност, ланац вредности, ефикасан ланац вредности предузећа, евалуација ефикасности ланца вредности, критеријум евалуације.

## 1. Introduction

Transformations of the enterprise's management systems, which took place at the end of the 20th century, have emphasized the category of an enterprise's value as, on one hand, a basis for determining its fundamental financial objective, while on the other hand, as a measure of management's effectiveness and a tool for improvement of strategic management (Romanowska, 2001). Value management comprises such decision-making in different areas of an enterprise (investment, marketing, production, finance, services, customer service etc.), so that its value is increased within a potentially acceptable time interval (Jabłoński & Jabłoński, 2006). Maximization of an enterprise's value requires specific management from executives, where the undertaken actions are concentrated on key factors of value creation, as these allow for integration and streamlining of the strategic and operational decision-making process (Janasz, 2003). In the literature on the subject, there is a multitude of approaches towards the description of the value creation process, conducted by an enterprise. One of the most interesting proposals was presented by C. Stabell and O. Fjeldstad. Relying on the J. Thompson's typology (1976), these authors distinguish three basic configurations of value creation systems: value chains, value shop and value network (Stabell & Fjeldstad, 1998). In the undermentioned study, the attention will be focused on the evaluation of efficiency of the value creation of an enterprise, with the use of a value chain. The concept of a value chain implies that the source of an enterprise's competitive advantage is a disaggregation of a value creation process into several separate areas of activity (chain links) – fundamental and supportive – where each of them has an influence on the cost position of a company and may form the basis for the diversification from the competitors. An essential assumption of this

approach is that the separated links have different economics and contribute to the growth of the product's value from the client's perspective in a different manner (Porter, 1992).

## 2. An interpretation of the term of efficiency in different sciences versus the efficiency of an enterprise's value chain

Nowadays, the most important area of the quest for values is associated with the processes functioning within the enterprises, the so-called value chain (Matwiejczuk, 2010). An increase in the company's value is possible thanks to the undertakings aimed at formation and perfecting of the structure of the value chain (Cholewicka-Goździk, 2001, p. 15). A value chain constitutes the most important tool of the diagnostic tests and is an expression of a currently preferred process approach, which displays an analysis of organizational course, optimization of the manufacturing cycle and “learning” the organization (Stabryła, 2007).

Value creation can be looked into from the point of view of a chain in its entirety, meaning the value system (which includes value chains of consecutive participating subjects) or from the perspective of a chain of a singular enterprise (constituting a link of the value system). That is why, one can mention two types of chains: internal and external.

The Author defines an enterprise's value chain as a system of fundamental, supportive and managerial processes, coordinated in a manner enabling the effective creation of value added, with the participation of all parties, especially the participation of the ultimate customer in the process of product and/or service creation.

During the creation of its value chain, an enterprise can choose from the two of its types, namely the *lean* chain or the *agile* chain. The choice of the kind of the chain depends, among other things, on the sector where the company operates, the type of the manufactured product, as well as the quantity of demand and supply in the market. A sort of the internal structure of a value chain would be determined by the applied business model, by the chosen type of strategy for the enterprise's value chain and also by the kind of used concepts and methods for chain management. That is the reason why it is crucial to arrange the type of dimensions and the proper set of criteria, allowing for the evaluation of the efficiency of an enterprise's value chain functioning.

The term of efficiency can be explained with the use of different perspectives (sciences), namely making reference to: the undertakings accomplished by man (praxeology) (Kotarbiński, 1982), as well as from the perspective of: economics (both microeconomics and macroeconomics), technology, processes, ergonomics (health), sociology, etc. (Woźniak, 2012).

1. The term of efficiency with regard to the *man's undertakings* (Hendzel, 1998; Cabała, 2007; Szafranski, 2003) is then specified as “an ability to perform certain tasks” and refers both to the body and the mind. Efficiency concerns any man's undertakings, regardless of its reason or objective (Machnik, 2002; Łasiński, 2003; Panfil, 2006).
2. *The microeconomic approach* of actions' efficiency is characterized by a partial analysis of the fundamental characteristics, impacting the efficiency

of functioning of the entire organizations (enterprises). Within the framework of the assessment of the work outlay and the achieved results, it refers almost solely to the components of activities, which can be presented in the form of financial measures, expressed in monetary units. The basic indicators applied in this approach are the economic effectiveness of activity, productivity of work and work factors (human and material resources), work output, production capability (Woźniak, 2012).

3. *The macroeconomic approach* refers to the measures of the efficiency of the whole country's economy, meaning all enterprises and the employed citizens. Among the exemplary measures applied in the macroeconomic comparisons of the economies of different countries, one can mention the GDP, debt levels, aggregate measures of economic development, inflation indices, levels of interest rates, etc.
4. The notion of efficiency is commonly applied in *the technical science*, where it means a feature of the objects' functioning. In technology, efficiency is recognized as a level, determining to what extent a device converts the energy of one form into another (e.g. electric energy into kinetic energy – a machine's motion) (Woźniak, 2012).
5. Another approach to the term of efficiency, so called *process approach*, is associated with the entire set of activities, most often accomplished by various executors. In the majority of organizations, the final effects of processes matter, whereas the effectiveness of consecutive elements belonging to the analyzed process remains unknown. Cases, when a product is created as a result of one-stage process – one activity, are very rare (Grajewski, 2007). Within the process approach, the following measures of efficiency are identified most frequently: an indicator of transitory efficacy, an indicator of efficacy measured in the course of production, as well as a standardized indicator of work output.
6. In *the ergonomic (health) approach* towards efficiency, the attention is paid to the functional dimension of health, in other words, to the condition of an individual without any disability, enabling the every-day active participation in the professional career (Chuengsatiansup, 2003).
7. Another, *sociological approach* towards efficiency, most often applies to the results of activities, undertaken by large groups of people (on the scale of the country, region or organization). Sociology is a science, studying the functioning and directions of changes within societies or large groups of people, in a systematic and orderly way. In general, social rules, processes and structures, together with their influence on the efficiency of individuals and the entire social organisms, are subject to the sociological study (Woźniak, 2012).

Within this study, efficiency is an issue considered from the perspective of *the organization's functioning*. Modern enterprises, in order to be successful in the changeable and complex environment, need to be marked by high efficiency. Their activity cannot be analyzed taking into account only the revenues and costs. The level of accomplishment of their objectives constitutes a result of managers' undertakings, within the area of exploitation of the held resources, adherence to the binding procedures,

structuring the relations, not only between the consecutive elements of the organization, but also between the environment participants and the organization itself. The activity of an organization and its results is not of utmost importance only to owners, shareholders or stakeholders. There are also others interested in this sphere – participants of both the closer (clients, competitors, suppliers) and the more distant environment (e.g. the local community, local government etc.) (Mazurkiewicz, 2011).

The interpretations referring to the efficiency, which were presented above, will not exhaust all the problems included within the area of these issues. However, they constitute a sufficient basis for further consideration within the framework of the efficiency assessment of the functioning of an enterprise's value chain. Therefore, the Author perceives an efficient value chain of an enterprise as a successful and effective accomplishment of the prescribed objectives, stemming from the applied strategy, but also as an optimal adjustment and exploitation of resources and competences, in the consecutive fundamental and supportive processes, influencing the value creation of a product, satisfying the needs of the ultimate customer.

### 3. Types of approaches used for the efficiency evaluation of an enterprise's value chain

An issue of the efficiency evaluation of an enterprise's value chain functioning is essential from the strategic and operational point of view. This efficiency assessment is not only in the diagnostic character; it can be equally well applied within the proposals for the specification of changes improving the existing structure of a value chain or within the suggestions about the new – more dynamic or more efficient – value chains for a given enterprise.

The efficiency evaluation of an enterprise's value chain functioning may be conducted with the use of various approaches from the area of organization and management, together with the measures applied for the assessment, namely the approaches such as: an objective approach, a systemic approach, an economic approach, a stakeholders' groups approach, a process approach, a resource approach, a subjective-relational approach, a managerial approach, etc. (Skurzyńska-Sikora, 2009; Malik, 2004; Bielski, 2002). Below, one can find a synthetic characterization of the previously mentioned approaches, applied with reference to the efficiency evaluation of an enterprise's value chain functioning.

**An objective approach** implies that the organizations function in order to achieve specific objectives, therefore an efficiency assessment should involve a specification of the degree of objectives' accomplishment, as well as the degree of the held resources' exploitation. A condition for high efficiency becomes associated with: a precise definition of objectives, a specification of the time period necessary for their accomplishment and measures allowing to assess this accomplishment process (Ziębicki, 2014). It means that the objectives need to be quantified, which, in case of the enterprises, triggers the aspiration for their maximization, understood as an accomplishment of an objective, in its possibly widest quality dimension (Lange, 1978). According to the definition by A. Stabryła, effectiveness is a measure of conformity of a model value (planning, prescribed

one) to the actual state (real). Such a measure points to the degree of conformity in the objective's accomplishment (Stabryła, 2006).

*A concept of stakeholders' groups* constitutes an attempt to consider the organization's goals from a broader perspective, yet, it takes into account the results of current functioning as well. Within this approach, efficiency is a complex notion and should be assessed pursuant to the criteria and indicators, formulated by different groups of an organization's stakeholders (Henri, 2004). An essential assumption says that an organization cannot exist and function without the support from various groups of stakeholders, especially shareholders, employees, clients, suppliers, government, local community or society as a whole (Bratnicki & Kulikowska-Pawlak, 2013). This is the reason why within the multiple-choice approach, effectiveness is defined as “a degree to which an organization meets the expectations of both internal and external groups of stakeholders” (Freeman, 1984; Rollinson, 2002). J. Lichtarski (1999), M. Romanowska (2002) claim that an organization's perception of the importance of both stakeholders and of maintenance of positive relations with them, is decisive for the success of such an organization and its high effectiveness.

Within *the systemic approach*, it is assumed that an organization is a whole and its efficient functioning depends on technical, as well as economic, sociological and psychological factors (Kieżun, 1997). The efficiency evaluation of an organization refers to its ability to survive and develop. This ability depends on the strength and cohesiveness of an organization, its position in the environment and the capability for its further reinforcement, whereas the main source of effectiveness is connected with acquiring and using the rare and valuable resources, necessary for the company to function and build relations with the environment (Yuchtman, & Seashore, 1967). According to the systemic approach towards organization, an emphasis can be put either on entrance or exit from the system. That is why the main aspects of efficiency comprise the organization's capability for the acquisition of resources necessary for its functioning and development, an efficient transformation of these resources and also transactions within the environment (Bielski, 1996). The systemic approach, being a comprehensive perspective with regard to an enterprise's value chain (as a system of interconnected processes) will be clarified by means of integrating several approaches: economic, resource, process, subjective-relational (behavioral) and managerial one (Kieżun, 1997).

*An economic approach* perceives efficiency in terms of effectiveness, meaning the relation between the results and outlays, described by measures such as productivity or profitability<sup>7</sup>. Within this approach, efficiency of a perfect economic system of free competition is present, when there is an equilibrium between demand and supply. Such an equilibrium ensures the exploitation of all resources (Samuelson & Nordhaus, 1995). The main objective of this approach is an accomplishment of a specific effect, with the use of possibly the smallest amount of available resources or an accomplishment of possibly the best result, with the use of a specific amount of resources. However, in the literature on the subject, the need for an extension of the term of effectiveness in the economic perspective is quite strongly emphasized (Martyniak, 2000), who is an opponent of limiting the effectiveness solely to this category. A similar opinion is presented by: M. Holstein-Beck (1987), M. Bielski (1996) and E. Skrzypek (2000). The basic indicators applied within this perspective include the economic effectiveness of activity, productivity of work and its factors, work output and production capability. An aggregated view of the efficiency of activity, referring to the entire organization and all of its employees, is expressed by means

of appraisal indicators of a company's financial condition (Sierpińska & Jachna, 2004).

In *the resource approach*, it is assumed that organizations need to act in a manner, enabling the best protection and application of the held, limited or particularly valuable resources. The effectiveness of resources' management by an enterprise refers to the entire property of an entity (fixed and current assets) and its employees (Duraj, 2004). It is determined by the degree of coordination of activities and derives from the applied methods of prioritization thereof (Al-jibouri, 2002). An organization should maximize its bargaining position in relation to the environment, in order to receive an optimal amount of rare and necessary resources (Crook et al., 2008). Such an understanding of effectiveness is concentrated on the ability to acquire resources from the environment and the degree of their exploitation (Greve, 2011). An issue, which is of crucial importance for an enterprise, is to build a value chain, basing on the necessary and most valuable resources. However, this does not imply that these need to be available only within the framework of this particular entity. The level of resources of an organization, together with the ability of acquiring them and the ways of using them, determines the development (a potential) of an enterprise's value chain.

*A process approach* towards organizations' management is based on the assumption that the main interests of an enterprise concern the economic processes and their results, as well as the coordination and integration of activity (Nowosielski, 2011). The well-prospering business processes are recognized as critical resources of a company, deciding about its market value (Seethamraju, 2013). Therefore, an accomplishment of processes, which influence the value added, is the prime mover, having impact on the organization's efficiency and in consequence, on its final results. Application of the process approach may ensure the necessary level of company's flexibility and, at the same time, enable the efficient functioning, given the circumstances of high competitiveness (Nowosielski, 2008). The main focus in this sphere is associated with the proper management of all types of processes, impacting the creation of a product's value for the ultimate customer. While evaluating the efficiency of an enterprise's value chain, it is imperative to assess, with the use of different quantitative and qualitative criteria, the efficiency of accomplishment of consecutive fundamental processes, as well as the supportive-managerial processes, which are present or purchased from the outside for an enterprise.

*A subjective-relational approach* allows for measurement and evaluation of a value chain, with regard to its structure, specified by the subjective dimension (number of participants), but also for measurement and assessment of the existing relations by means of two aspects: static (type of organizational and legal contracts and the scope of its application) as well as dynamic (functional – influence of relations on the undertaken processes and the scope of their changes) (Bartusik & Sołtysik, 2015). This dynamic perspective on a value chain refers to relations, which comprise the connections visible within the dimensions of subjects, processes and resources. This concerns such interactions between subjects, where one can observe an information, material or energetic exchange, with the parties of the exchange being mutually engaged in the process. The efficiency of relations within the enterprise's value chain can be examined within the dimension of its internal or external structure. This importance of relations with different subjects is emphasized by J. Lichtarski (1999), P. Dwojacki, Cz. Sikorski, B. Nogalski (1999), S. Sudoł (2002), M. Romanowska (2002). The adoption of the clientele's orientation by modern enterprises, together with the inherent aspiration for the increase of the customers'



satisfaction, reinforces the cooperation with the consumer and also with other subjects, determining the flexible and effective value creation of a product (Potoczek, 2010).

A crucial role within the course of measurement and evaluation of an enterprise's value chain is played by the management process, meaning *the managerial approach* (Blaik, 2002). A classical perspective on the management process comprises its four fundamental functions: planning, organizing, motivating and controlling. Therefore, within this approach, a great importance is associated with the assessment of the degree of accomplishment of consecutive management functions, but also with the selection and evaluation of the effectiveness of instruments applied for the value chain management. From the point of view of efficiency of an enterprise's value chain, special attention should be paid to the degree of strategic and operational management thereof, which is connected with the efficiency of both management and executive systems. In order to enhance the efficiency of an enterprise's value chain, it is also essential to constantly improve the consecutive elements and relations between them (Wysokińska-Senkus, 2013). Among the key undertakings of the management process, which can also impact the level of efficiency of an enterprise's value chain, one can enumerate: innovations and changes management, projects management, knowledge management, information management, competences management, corporate culture management, marketing management, technology management, finance management, risk management, strategic management, relations management, leadership, cooperation, communication, time and space management, etc.

#### 4. Criteria applied for an efficiency evaluation of an enterprise's value chain

Efficiency of an organization's functioning, especially in the conditions of new economy, is determined by the competition, growth of the clientele's expectations in many areas (including the quality), fast changes in the sphere of technology, production and services' provision, but also by the broad transformations within the scope of organizations' activity in the market (Barczak, 2016). Organizations search then for the best management concepts, methods and techniques, which could contribute to the improvement of their functioning's efficiency.

Table 1 depicts the basic approaches and the applied evaluation criteria, which can be used for the assessment of efficiency of an enterprise's value chain.

Table 1 Approaches and criteria used for the efficiency evaluation of an enterprise's value chain

Approaches to the efficiency evaluation	Fundamental criteria for the efficiency evaluation
1. Objective approach (praxeological)	- basic measures of assessment: efficacy, profitableness, economy of activity - supplementary measures of assessment: simplicity, purity, soundness, precision, reliability
2. Economic approach	- economic effectiveness (profitability, productivity, work output, ROI, NPV, EVA, MVA, IRR, etc.) influences the results of an enterprise - level of efficiency of an enterprise's property management - level of an enterprise's value and its dynamics - level of costs and their influence on the margin (value added) - level of results' orientation - efficacy and effectiveness of the applied measurement systems and results' records

3. Stakeholders' groups approach	<ul style="list-style-type: none"> <li>- degree of identification of various stakeholders' groups expectations</li> <li>- degree of accomplishment of objectives, with regard to the important stakeholders' groups</li> <li>- degree of value added realization by an enterprise, with regard to different stakeholders' groups</li> <li>- degree of an enterprise's expectations towards different groups of stakeholders</li> <li>- ability to create and structure business relations</li> </ul>
4. Systemic approach (cybernetic)	<ul style="list-style-type: none"> <li>- evaluation of the level of inputs</li> <li>- evaluation of the transformation process</li> <li>- evaluation of the level of outputs</li> <li>- ability to acquire resources from the environment</li> <li>- level of exploitation of the acquired resources</li> <li>- the system's productivity</li> <li>- survival and development</li> <li>- harmony and social cooperation</li> <li>- balance – variability of the system</li> <li>- organizational efficiency</li> <li>- technical efficiency</li> <li>- economic efficiency</li> <li>- human efficiency</li> </ul>
5. Resource approach	<ul style="list-style-type: none"> <li>- efficiency of both quantitative and qualitative acquisition of necessary resources and competences (resources such as financial, human, material, informational and knowledge)</li> <li>- level of availability and exploitation of resources and competences within the strategy's realization</li> <li>- level of development and transformation of resources and competences into products and services</li> <li>- level of protection of resources and competences within a company</li> </ul>
6. Process approach	<ul style="list-style-type: none"> <li>- degree of process maturity of an organization</li> <li>- efficiency of accomplishment of consecutive fundamental and supportive processes</li> <li>- orientation for: a customer, time, costs, quality</li> <li>- flexibility/adaptability, dynamics of changes within processes, innovation</li> </ul>
7. Subjective-relational approach	<ul style="list-style-type: none"> <li>- number of subjects participating in a value chain (complexity of a value chain)</li> <li>- division of functions (roles) between the subjects of a value chain</li> <li>- firm's participation in alliances, mergers, takeovers (external development)</li> <li>- strong bargaining position of subjects from the value chain and changes in the movement of value added</li> <li>- value of relations (quality, long-lasting nature, effectiveness)</li> <li>- level of internal and external communication</li> </ul>
8. Managerial approach	<ul style="list-style-type: none"> <li>- efficiency level of the management system (competences, management style, leadership, motivation, corporate culture, resourcefulness)</li> <li>- efficacy and effectiveness level of strategic and operational planning (efficacy, effectiveness and flexibility of a strategy)</li> <li>- efficiency of planning (perfecting) of an organization (structure, strategy, technology, motivation, people, finances)</li> <li>- efficiency level of an information-decision-making process</li> <li>- efficacy (effectiveness) level of the motivation system</li> <li>- effectiveness and speed of changes' implementation</li> <li>- efficacy and effectiveness level of knowledge management</li> <li>- efficacy and effectiveness level of risk management</li> <li>- level of selection and exploitation of resources, management methods</li> <li>- efficacy and effectiveness level of strategic and operational controls</li> </ul>

Source: own elaboration

The approaches presented above do not constitute an exhaustive list, because within the efficiency evaluation of an organization's functioning, one can also apply other approaches, for instance, technical, ergonomic, functional, behavioral, systemic, holistic (comprehensive), project, diagnostic, prognostic, situational, formalistic, value analysis, structural, etc. Diversity of approaches presented in the literature, shows that, despite the huge importance of efficiency as a criterion for the evaluation of a value chain's functioning, one perfect method of measurement and assessment of this category

still has not been created and also a full identification of factors influencing it, has not been performed. While creating the new models of efficiency evaluation, researchers try to keep up with the development of theory and practice, with the changing expectations and value systems of societies.

The results of enterprises' activity are most often analyzed from the perspective of two elements: (1) efficiency, connected with the degree of ability to achieve the prescribed objectives by a given company, and (2) effectiveness, understood as a relation between the resources engaged in triggering the specific set of effects, such as accomplishment of a firm's objectives (van Weele, 1994). According to A. Rolstadas, a result of an enterprise's functioning is influenced by three driving forces of a value chain, also known as the fundamental dimensions of business: efficiency (to what degree the needs of clients are satisfied), effectiveness (what is the degree of economical exploitation of a company's resources) and variability (to what extent companies are prepared for future changes) (Rolstadas, 1995). Efficiency can be described within the categories of quality of the processes' results, meaning how efficient company is in meeting the demand. Effectiveness is measured by productivity indicators, sometimes combined with the exploitation indicators. An improvement in the area of efficiency is typically associated with the growth of effectiveness (productivity). Taking into account the market and financial aspects of a business during the measurement processes guarantees the securement of interests of the two fundamental groups of an organization's clients (Kispierska-Moroń, 2006):

1. External and/or internal market clients, having a need for the products or services.
2. Owners and/or shareholders, expecting the financial results to be suitable for the securement of their interests.

In these times, it is then advisable to observe the three driving forces of a value chain – clients' satisfaction, flexibility and productivity – as an integrated system, rather than three interdependent factors. For the purposes of measurement and evaluation of a value chain's efficiency, one can use quantitative and qualitative criteria. Among the criteria, commonly applied for the efficiency assessment of a products' flow along the value chain, one can mention: economic effectiveness, productivity, time needed for a completion of orders, level of customers service, time needed for transport, prompt and reliable deliveries, level of reserves (Ciesielski, 2011). Moreover, one can also distinguish measures of evaluation of a value chain's functioning, such as quality, delivery time, whole cycle time and losses (Kispierska-Moroń, 2006). While assessing the efficiency of a value chain, it is necessary to consider not only the parameters of the obtained value added, but also an impact of the incurred costs on the accomplishment of the prescribed objectives. During the analysis of a value chain's effectiveness, it can be perceived in the aspect of the degree of accomplishment of the planned activities or the adopted objectives. The most crucial category of evaluation of an enterprise's value chain is the value added (profit), which can be calculated with the use of various measures (accounting, financial and market), dividing them into absolute and relative measures (Borowiecki, 2009; Jaki, 2012).

The manner and scope of application of different criteria for the efficiency evaluation of a value chain would depend on the aim and purpose of the obtained results, and also on

the ability to collect data in order to perform the assessment. These criteria for evaluation of a value chain may be also determined and extended, taking into account assessment of consecutive fundamental processes: logistics, design, production, services' provision, sales, customers' service, together with the supportive and managerial processes: finances, marketing, technology, human resources, infrastructure. Therefore, measurement and evaluation constitute the fundamental issues in creation of efficient value chain of an enterprise and also in decision-making in the sphere of choice of a competitive market strategy.

## 5. Conclusion

Making an appraisal of efficiency of a value chain in different dimensions and on different levels, allows for determining the directions of its further development, not only from the perspective of an enterprise where the analysis is conducted, but also from the point of view of each participant, functioning in the system of a specific value chain, as any enterprise is able to improve the efficiency of its internal and external value chain, and thanks to that, strengthen its competitive advantage.

An efficient value chain is the one that creates the value for all stakeholders and thanks to this, is competitive and contributes to the growth of organizations comprised within. Such a chain is characterized by the speed of responding to the needs of customers, cost effectiveness, reliability and innovation; it is also flexible and adaptable, concentrated primarily on the customer, as well as socially responsible (Shen & Lapide, 2005; Tarasiewicz, 2014). Efficiency of a value chain may be increased through: optimization of consecutive fundamental and supportive functions of an enterprise, better coordination of fundamental and supportive functions, as well as through better coordination of suppliers and purchasers with the value chain, and in case of strategic alliances, also coordination of competitors (Gierszewska & Romanowska, 2003).

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## STATE, INSTITUTIONAL INFRASTRUCTURE AND TRANSITION ENGINEERING IN REPUBLIC OF SERBIA

### Abstract

*Radical changes in the transition should enable the restructuring of the economy and financial markets, involvement in European and worldwide integration streams, influx of capital and creation of a favorable business environment. The creation of market infrastructure demands time and cannot, except in specific segments, be created by decrees. The implementation of changes in the economical and institutional environment has to be a sensibly channeled process. Apart from the reconstruction of the existing institutions, new institutions have to be created and substantial changes of their functioning have to be implemented. The underlying assumptions in the process of establishment of the goals and means of transforming the Serbian economy are the norms of a liberal market economy and the demands for an integral market and the universal action of market mechanisms. Thereby, a critical standpoint and selectiveness in the choice of methods for the creation of the transition, especially in the case of an installation of liberalism norms, must exist. The worldwide financial crisis points out the significant limitations of neo-liberalism. The role of interventionism through state is more significant.*

**Key words:** transition, institutions, market, state, interventionism, constructivism

**JEL classification:** D0, P20, H70

## ДРЖАВА, ИНСТИТУЦИОНАЛНА ИНФРАСТРУКТУРА И ТРАНЗИЦИОНИ ИНЖЕЊЕРИНГ У РЕПУБЛИЦИ СРБИЈИ

### Апстракт

*Радикална промена коју подразумева транзиција треба да обезбеди реструктурирање привреде и финансијског тржишта, укључивање у европске и светске интеграционе токове, прилив капитала, стварање повољног амбијента за пословање. Изградња тржишне инфраструктуре захтева време и не може се, осим у појединим сегментима, успостављати декретима. Остваривање неопходних измена привредно-системског и институционалног окружења мора бити свесно каналисан процес. Осим реконструкције постојећих, потребно је уводити нове институције и извршити обимне промене њиховог функционисања. При концептирању циљева и начина трансформисања привреде Србије полази се од норми либералне тржишне привреде и захтева за интегралним тржиштем и универзалним деловањем тржишног механизма.*

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*При томе мора да постоји критички став и селективност у избору метода креирања транзиције, нарочито у случају “инсталирања” норми либерализма. Економска криза у свету указује на значајна ограничења неолиберализма. На сцену све израженије ступа интервенционизам у виду помоћи државе.*

*Кључне речи: институције, тржиште, држава, интервенционизам, конструктивизам.*

## Introduction

The transition process involves the implementation of complex changes in the economy and society. It is present in all former socialist countries. After more than 25 years, conclusions about the content and effects of transition can be drawn. The comprehensiveness is different in different countries. The results of the undertaken transition actions are also different. Today we can talk about good performance and economic structures that successfully enter to the world economic trends, but also about the other economies that still can not reach the level of domestic product from the late eighties. The reasons for greater or less successful transition is not easily explained due to simultaneous effect of economic and non-economic factors on the pretransitional processes, as well as on the flow and content of the transition process.

One of the basic tasks of transition is to create more favorable environment for expressing individual preferences of the population and businesses and their alignment with collective preferences. In economic terms, this means that prerequisites should be created for the achievement of the target functions of businesses and consumers, which would lead to efficient business, both at the microeconomic level and at the national level.

The radical change that transition should involve provides: 1) the restructuring of the economy and the financial market, 2) inclusion in the European and global integration flows, 3) capital inflows, 4) creation of a favorable business environment. By implementing a comprehensive change of the economic and social system, preconditions for achieving the characteristics of contemporary societies - democracy, competence, competitiveness, innovativeness and inventiveness, a new entrepreneurial spirit are being created. In the domain of commitment for these goals, there is no doubt. There are dilemmas about the way and the speed of building new institutions of the market economy.

Building a market infrastructure requires time and can not, except in certain segments, be established by decrees. Also, building an integrated markets implies creating a favorable socio-economic environment. Realizing the necessary changes in the economic-system and institutional environment must be a deliberately controlled process. This process, as the transition process as a whole, is a combination of spontaneous and planned guidance with greater or less domination and the significance one of these two approaches, depending on the phase of transition.

Except the reconstruction of existing institutions, it is necessary to introduce new ones at the same time and to make extensive changes in their functioning. In conceiving the goals and way of transforming the economy, in theory and practice, it often starts from the norms of a liberal market economy and requests for an integral market and the universal functioning of a market mechanism with an informative, selective, allocative and distribution function.

Neoliberalist conceptions are based on the necessity of having the freedom of individual

activities within the framework of institutions in the broadest sense (markets, laws, property rights, prevention of monopoly, etc.). Thereby, there must be a critical attitude and selectivity in choosing the methods of creating a transition, especially in the case of “installing” the norms of liberalism. The economic crisis in the world points out the significant restrictions of liberalism. On the scene, interventionism is more pronounced in the form of state assistance to even private companies and banks, but also significant interventions in the financial market. The market is becoming more and more regulated, not anarchic; regular, not gray. Market process control is applied based on the model of developed countries and countries in transition.

## 1. Spontaneity and constructivism in the transition process

If the free movement of the market mechanism, as a goal of transition, arises, attention is drawn to Hajek (1998) by his analysis of free order and constructivism. The free order implies respecting the rules that are independent of the intentions of individuals or interest groups. These general rules are based on tradition or customs. Individual market actors only adapt to environment parameters that are not subject to “violent” changes. Spontaneously established rules can not be changed neither by economic nor by any other interventions. Even it can be argued that interventionism is detrimental due to it represents a violation of the natural order. The state must ensure respect the norms necessary for the functioning of the spontaneous order.

At the beginning of the transition process in post-socialist economies, all preconditions for achieving a spontaneous order can not be created. The inherited institutional framework and the code conduct system of economic actors does not allow the functioning of a free market game. In these economies, therefore, there is not system of rules or institutions that meet the requirements of a spontaneous order. If there are not necessary preconditions, then they should be created. In other words, a new system of rules and institutions of a market economy should be established. Obviously, in this transition, there is a necessary discontinuity in the functioning of the economy and society.

In the case of the formation of completely new institutions, unknown ones for these economies, as well as the rules of conduct, it can also lead to a certain vacuum, which should quickly be filled in by the institutions of the market economy. In addition, constructivism in Hajek’s sense is necessary because it is about designing the norms of a market economy to the reality which is burdened by the legacy of planned economic flows, the absence or insufficient representation of market economy institutions (capital markets, labor, “hard” budget constraints, etc.).

The results of the undertaken transition transitions are very different. In one group of countries, a fundamental, radical and relatively rapid reconstruction of the functioning of economic and social processes was carried out. In the second group of countries, declarative commitment for essential changes appears, but the foreseen effects are missing in the implementation, mostly due to the lack of synchronized and simultaneous interventions in all spheres and the insufficiently energetic break with the recurrences of the past. As a result of such a situation, a political and economic transition is being implemented (or implemented) in one group of countries, while asynchronous and more or less cosmetic changes in different segments of the economy and society occur in the other group of countries.

These differences in transition engineering and in the effects of the undertaken changes show that the fundamental reconstruction of the economy and society implies simultaneous

deep political and economic transformation. An insight into the current results of transition in Serbia shows that significant reform activities have been undertaken, but there are not still desired results.

Clearly defining goals, means and holders of the process of economic and social changes, is a significant prerequisite for a successful transition. The instrumentarium for the change implementation must be adapted to the market economy and to a democratic society. In order to achieve the goals of transition, the institutional framework must be changed, and in certain segments it is necessary to build new institutions and to constitute new rules of conduct.

## **2. The importance of changing existing and building new institutions in the transition process**

The differences in the success of transition in some countries can not be easily explained due to simultaneous effect of economic and non-economic factors. In order to achieve the transition objectives, all relevant parameters of this process should be taken into account. After reviewing the existing conditions, change of the institutional framework and the construction of new institutions and codes of conduct is approached. Building the institutional ambient that is supportive to implementation of desired reforms is the most important task of every transition process. In doing so, we should start from wider understanding of institutions as sets of formal and informal rules that determine social relations and through which legality in the interactions of individuals and social groups is expressed.

In the broadest context of neo-institutionalism, the development of a free order implies respect the rules that, independently of the intentions of actual individuals or interest groups, have been formed as a result of the historical processes of shaping social relations. Formed over a long period of time, such rules become the laws that are verified in the daily interactions of individuals, social groups and institutions. These general rules are based on tradition, customs, religion, culture. Since non-formal rules are expressed independently of the needs and demands of a particular social process, their effect on this process has a parametric character. As objectively given and immune to the influence of the willingness of individuals or groups, informal rules are not subject to “violent” changes. The state, therefore, must ensure respecting the norms necessary for the functioning of the spontaneous order and their evolutionary development.

Constructivism in Hajek’s sense refers to the design the norms of a market economy into reality of the economies burdened by inherited economic structure, the absence or insufficient institutions of market economy. If spontaneous building of institutions of market economies would be realized, the process would require a long period of time.

Time is, however, one of the most deficient transition factors. Therefore, it seems quite rational to take over the solutions that have already been proven successful in the practice of developed market economies. Some economic analysts therefore have emphasized the benefits of the delayed transition reflected in the avoidance of mistakes made by creators in countries that had previously initiated this process. Of course, this was not possible in all cases. The downloaded or customized solutions should in any case lead to increasing the efficiency of using existing economic resources and creating a new economic structure with good performance.

The spontaneous order continues to operate at the beginning of the transition process, but now combined with new formal rules. The inherited institutional framework and rules of conduct of economic actors did not allow the full realization of democracy and the manifestation of all market functions. In these economies, therefore, there is no system of rules or institutions that meet the requirements of the projected goals. If there are not yet prerequisites, then it should be created. In other words, a new system of rules and institutions of a market economy should be established. Obviously, in this transition, discontinuity in the models of the functioning of the economy and society necessarily occurs.

In the case of the formation of completely new, unknown institutions and rules of conduct in these economies, a vacuum may be occurred, which of course must be quickly filled up with the institutions of the market economy. In doing so, the traditional issue of adapting foreign models to domestic conditions is posed. If this complex engineering is achieved in the field of normativism, there remains a huge problem of implementation in the real business environment.

### **3. Market infrastructure and implementation of formal rules: previous experiences in Serbia**

There is a delicate mix of intent and spontaneity in system change. According to Klaus, there are three stages of transition. The first phase is characterized by constructivism. The second stage is the implementation of economic-systemic solutions and the concretization of global defining. In the third, final phase, the economic system begins to function in accordance with the defined goals and gradually adapt to the post-transition period. As Serbia is at the threshold of the third phase, we will rely on a brief analysis of the first two phases of the transition.

Transition creators in the first phase devise and implement price liberalization and market opening, privatize, abolish or substantially reduce the system of state donations and subsidies by enforcing a “hard” budget constraint (Svejnar, 2002). In addition, at this stage, the budget is stabilized and monetary stability is established. As part of creating the basis for the functioning of the market economy, it is also the creation of an adequate social program.

At this phase, the constitution of a new institutional arrangement is starting, in order to allow changes of inherited economic structure as soon as possible. In developed countries, the institutional framework has been built over a long period of time, can be said for centuries, along with the development of the liberal market. Therefore, it was created evolutionarily. Serbia has a completely different situation. Since the beginning of the transition process in post-socialist countries (at the end of the 1980s), Serbia’s economy functioned according to rules that more or less deviated from the norms of behavior of developed market economies.

In creating a new physiognomy of market institutions, architects of economic-system solutions in Serbia set the goal defined as building an open market economy. Transition into the market economy is a period of intense reform processes. With the desired macroeconomic stability, it tended to achieve the complex of objectives such as reform of the real and financial sector. Privatization has been highlighted in the last years as a key process. The establishment of a new ownership and management structure in enterprises should have enabled expansion of the entrepreneurial initiative and stable economic development in the long run. In order to

speed up the reform process, the creators emphasized the unrealistic hope that even in unstable political occasions, favorable environment for foreign investments could be achieved. This primarily refers to the possibility of attracting foreign direct investments that could bring new programs, new technologies, placement of products to foreign markets, new entrepreneurial spirit, creativity and inventiveness. The results, as can be seen from numerous data, are missing. The reason is well known: the inflow of foreign capital depends primarily on the risk of investment and prospects and the certainty of establishing economic stability in the long run with a clear legal system and within that unambiguous legal security of property. The scarce domestic savings and domestic capital from official and gray flows fill gaps at the desired pace of investments, going into secure placements or privatization of the remaining companies. The global crisis in the financial markets has also further complicated capital inflows in Serbia.

There are numerous problems related to the implementation of legal regulation in the functioning of the economy. Changes in the real and financial sectors are, as a rule, much more complex than changes in the monetary sphere. Macroeconomic stability can be established from a single center of power and decision-making (the Government and the Central Bank) using a small number of instruments. On the other hand, recipes for achieving macroeconomic stability are relatively simple, to a great extent universally applicable and implemented on the basis of suggestions, that is, under direct or indirect influence of the International Monetary Fund. The proof for these claims is the fact that all countries in our neighborhood have stable currencies and an enviable level of foreign exchange reserves, although they have different results in changing the economic structure and improving economic performance.

It is much more complex to establish a social environment stimulating for economic subjects. Such an environment must necessarily imply market infrastructure and efficient institutions adapted to the functioning of the economy in new conditions, as well as the motivation system for achieving high business performance. The economic performance of the Serbian economy shows that the results of the delayed transition are relatively modest. Restructuring of the economy can only be partially accomplished by dictation or the prescribing of measures and procedures. Such a procedure is applied selectively in companies that, according to the estimates of economic policy makers, have strategic significance, that employ a large number of employees or, in the perspective, can increase the value of capital. In the case of such enterprises, the state abandons the principle of hard budget constraint. Such an intervention in economic and general social trends can only make sense if: 1) it is time-limited and 2) implemented with the aim that the economy and society can successfully spontaneously operate after it is abolished.

The rest part of the economy is left to solving its, as a rule, accumulated problems, applying to the principle of reliance on its own strengths and a firm budget constraint. A small number of stumbled companies are waiting for the ending of privatization, which has quite unclear and uncertain effects for the employees. The environment in which they operate is distinguished by the still present financial indiscipline, as well as by the non-application of some important legal regulations. The debt economy and the negligible size of the gray economy limit even potentially successful companies to achieve better economic results. Despite numerous declarative efforts to stimulate the development of small and medium-sized enterprises, in reality, the effects are very modest. At the same time, a slow restructuring of large systems takes place, so that there is not formation of more flexible forms for organizing business from this specific potential.

#### **4. The role of the state in the functioning of institutions and transitional engineering in Serbia**

The creation of the necessary market infrastructure, ie. the institutions of a market economy, with the introduction of the elements of a democratic society, present the basic task of the state in transition. The market is a set of formal and informal rules for matching supply and demand. In addition, by appropriate legal regulations, state clearly define the behavior framework for economic entities, stability in the expression of interests and the achievement the goals. By clearly defining the rules of behavior and space for economic activity, the state affects the relationship between economic actors and the environment, creating the preconditions for achieving the highest level of social well-being.

Since the creation of implementation policy for transition process is in the hands of the state, redefinition of its classical non-economic as well as economic functions is imposed as a necessity. With a clear determination of the state's competences in the field of economic life, it is necessary to re-examine the scope and quality of the participation of the state sector in the creation of domestic product. This is a demand for the withdrawal of the state from the regulation of basic economic flows (deregulation) with the necessary preservation of public functions.

Already in the initial phase of transition, states must establish basic constituent and regulatory principles. The constitutive role of the state consists of securing the openness of the economy, defining ownership rights, guaranteeing the freedom of business entities, managing a consistent economic policy. The regulation function refers to the introduction and compliance with legal regulations, including the prevention of any monopolization. With these principles a competitive pressure can be achieved. The ways of achieving competitive order are different because combinations of systematic and regulatory mechanisms are different. Every economy should seek for the shortest way to achieve optimal solutions that will ensure the greatest economic and social development in general.

The creators of the transition process in Serbia had a very complex task to design its flow and content. One of the more important tasks is mass and quick privatization. However, it is necessary, but not sufficient condition for an effective transition. In addition to regulating property rights, it is necessary to simultaneously perform other institutional changes. In conceiving the goals and way of transforming the economy, often in theory and practice starts from the norms of a liberal market economy and demands for an integrated market and the universal functioning of the market mechanism with informative, selective, allocative and distribution function. Neoliberalism, as shown by many serious analyzes in developed countries, but also in countries in transition, has a number of defects. In the case of uncritical download the concept of liberal market economy, there are a number of problems that Serbia will try to solve with interventionism more difficult incompare to rich countries.

Building a market infrastructure requires time and can not, except in certain segments, be established by decrees. Also, building an integrated market implies creating a favorable socio-economic environment. Realizing the necessary changes in the economic, system and institutional environment must be consciously controlled process. For this reason, this process is a combination of spontaneous and planned guidance with

greater or less domination and the significance one of these two approaches depending on the phase of transition processes.

Analysts are in a position to evaluate the first two phases of transition in Serbia. The first phase was pure constructivism. Transition designers have devised and implemented price liberalization and market opening, privatized, abolished, or substantially reduced the system of government grants and subsidies by enforcing “hard” budget constraints. In addition, at this stage, a balanced budget and monetary stability have been established. All this was followed by an appropriate social program.

Already at this stage, the establishment of a new institutional arrangement has begun which helped to inherited economic structure change as soon as possible. The costs of building institutional infrastructure were a significant factor for delaying or slowing down its overall constitution. Effective institutions should create a positive difference between benefits and costs associated with restructuring, adaptation or building market relations. The transition does not have an alternative, so it is necessary to complete the process of introducing business-system solutions based on elements of market infrastructure in order to achieve faster economic development and improve the performance of the economy and individual economic entities, together with other relevant influences.

In creating a new physiognomy of market institutions, the creators of economic-system solutions set building an open market economy as the goal. Transition into the market economy is a period of intense economic reforms. The establishment of a new ownership and management structure in enterprises should enable the expansion of entrepreneurial initiative and stable economic development in the long run. In order to speed up the reform process, favorable environment for foreign investments should be built up, primarily to attract foreign direct investment, which can bring new programs, new technologies, placement of products to foreign markets, new entrepreneurial spirit, creativity and inventiveness. The inflow of foreign capital depends primarily on the political situation in the country and on the establishment of economic stability in the long run with clear legal system and within this unambiguous legal security of property.

The state plays a fundamental role in creating market environment. This role is reflected in the fact that laws and regulations regulate economic space. Thanks to the commitment to fundamental reconstruction of the economy and society, transition in Serbia is in some areas almost at the beginning. If spontaneous building of institutions, which are characteristic of developed market economies, would be realized, the process would require a long period of time. For countries in transition, time is a very scarce factor, so it is the most rational to stimulate a part of the economy whose development, with relatively small investments, will have effects on general economic development.

The critique of the previous transition engineering in Serbia must start from the achievements of alternative transitional projects in other countries, on the one hand, and from the norms of developed market economies, primarily the countries of the European Union, on the other hand. There are numerous limitations for easy copying of foreign experiences. In the process of ownership transformation, Serbia's economy relies on a pure market model (buying and selling companies by public tender or public auction). All this is done in the absence or inconsistent implementation of some important legal norms related to the real and financial sector. Without fully-built market institutions, it is impossible to achieve the intent of the law.

Economic transition should be achieved with a previously reached consensus on the necessity of radical reform efforts in the economy and society. This primarily refers to the institutions of executive and judicial power. Considering the delay in starting the transition, a clear and unequivocal discontinuity with the previous economic and systemic arrangement is necessary as a prerequisite for a fundamental reconstruction of the economy and society. Completion of privatization and restructuring of public enterprises represent the most significant problems in the years to come. Too big public sector imposes the need and necessity for state withdrawal and the search for alternative owners. Thanks to the party interests and inefficiency of the state, bulky, inert, and corruption-based system of administration and bureaucracy has been created.

The creators of transition in Serbia declaratively declare for fundamental reconstruction of the economy and society. In the period after the October events in 2000, in a relatively short period of time, partial completion of normative regulations was done with laws and other regulations and rules that should induce positive effects on the functioning of the economy. At the same time, but not always synchronized, harmonization with the legislation of the European Union was made, which is the condition for the accession of our country to the integration flows in Europe. However, in the implementation of these solutions, numerous problems arose. The current situation in Serbia in this area points out serious discrepancy between the desired and actual state of the economy, so it suggests us that there is not radical engagement in the scene, but a reform that, in its basic meaning, has the adjustment, change, but also insufficiently strong termination with recidivists of the past. The reasons for this are most often in the unfulfilled change of institutions and delay in the formation of new mechanisms for the functioning of the economy.

There is a discrepancy between the normative part of the economic system and the real forms and ways of doing business. This indicates the current state of our economy and the results of the business entities. This mismatch between the normative and factual economic system has several causes. The broadest formulation of these causes is the slow and insufficiently comprehensive implementation of laws and commitments to radical change.

## Conclusion

Reform in society involves the creation of institutions that would provide a modern service to the environment. Based on the experiences of the previous transition in Serbia, it turned out that institutions, from the level of local government to the highest state bodies, have not been substantially reformed. Under such conditions, institutions do not represent representatives of business entities and individuals interests. Insufficient dispersion of power has created great, decades back, concentration of power in the possession of small layer of influential centers of power. Only a radical change in the mechanism of government and rule can reduce or eliminate the created system of unnecessary administration and bureaucracy.

In the process of conceiving the transition, it was counted with a significant presence of foreign investors and aid in the donations form. In the previous period, the scarcity of direct investments is concerned, as a result of insufficient interests in



investing capital in our country. It remains to be seen how, in the absence of investment funds, there will be readiness and courage to maintain macroeconomic stability. The necessity of completing the initiated process is related to the risk of serious violation of social justice and possible, primarily political, consequences resulting from it.

Starting from the performance of our economy and the inefficiency of institutions, critique of the current transition engineering in Serbia can be addressed. The transition recession was created as a result of restructuring the economy and adapting to new business conditions without synchronized institutional changes. There are also numerous 'excursions' into populism. In addition, it seems that a political consensus has been reached on the necessity of radical reform efforts in the economy and in society. Given the delay in starting point for political and economic transition in Serbia, a clear and unequivocal discontinuity with the previous economic and system arrangement is necessary. This is a prerequisite for a fundamental reconstruction of the economy and society. The creators of the transition processes in Serbia should, without the necessity of abandoning strategic commitments, make amendments and corrections in the design or implementation of economic and system solutions in order to eliminate the discrepancy between the norms and the factual situation, thereby preventing the compromising of already achieved results.

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## DEPENDENCE OF SERBIAN ECONOMIC DEVELOPMENT ON FOREIGN DIRECT INVESTMENT FLOWS

### *Abstract*

*The aim of the paper is to identify, based on the analysis of relevant theoretical findings, the effects of foreign direct investment (FDI) on economic development and export growth of the Republic of Serbia. First, the characteristics of global FDI flows are presented. What follows is the analysis of FDI flows in the Republic of Serbia in the period from 2006 to 2016, and assessment of their real long-term effects. Finally, the relationship between FDI and export of the Republic of Serbia is examined.*

**Key words:** foreign direct investment, gross domestic product, globalization, economic development, export

**JEL classification:** O16, O52, G20

## ЗАВИСНОСТ ЕКОНОМСКОГ РАЗВОЈА СРБИЈЕ ОД ТОКА СТРАНИХ ДИРЕКТНИХ ИНВЕСТИЦИЈА

### **Апстракт**

Циљ рада је да на основу анализе релевантних теоријских налаза утврди ефекте страних директних инвестиција (СДИ) на економски развој и раст извоза Републике Србије. Прво су представљене карактеристике глобалних токова СДИ. Следи анализа токова СДИ у Републици Србији у периоду од 2006. до 2016. године и процена њихових реалних дугорочних ефеката. На крају, разматра се однос између СДИ и извоза Републике Србије.

**Кључне речи:** директне стране инвестиције, бруто домаћи производ, глобализација, економски развој, извоз.

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## Introduction

Foreign direct investment (FDI) has become one of the most important factors in global economic development over the last few decades. Most developing countries as well as countries in the transition process lack their own (domestic) capital. By attracting FDI, as an additional source of financing, these countries can successfully change economic structure and adapt to the requirements of the world market.

Due to the lack of its own capital, the Republic of Serbia needs foreign capital too, primarily in the form of FDI. FDI is expected to encourage restructuring of the economy, increase exports, as well as economic growth and development. Until the growth of domestic investment is achieved, FDI will be the primary production driver, primarily referring to production aimed at foreign markets.

The government of the Republic of Serbia has to work even further in the coming period to attract FDI, which will contribute to export growth, without increasing its indebtedness to foreign countries. Increasing the FDI inflow increases the chances of transferring modern technology from abroad, brings employment growth, increases export and, consequently, economic growth and development of the Republic of Serbia.

In order to demonstrate the FDI impact on economic growth and development as well as the export growth of the Republic of Serbia, we will first present the characteristics of global FDI flows. We will try to identify the importance of FDI for GDP growth. Then we will show the real short-term and long-term effects of FDI. Finally, we will present the effects of FDI on export of the Republic of Serbia.

### 1. Foreign direct investment as a global phenomenon

Foreign direct investment is a complex phenomenon, with a decisive influence on the economic development of each country. In addition to its economic effects, FDI exerts different social, political, and technological impacts. Although strong competition coming with foreign investors prevents growth and development of the domestic economy to keep it easier in colonial slavery, these investors become an increasingly powerful factor in society, as opposed to the state. Under such conditions, FDI cannot be a fundamental factor in the sustainable development of the national economy.

FDI today mostly occurs in underdeveloped and transition countries. This is mainly investment with a low level of technological intensity, which these countries accept because of insufficient domestic accumulation and high unemployment. In contrast, developed countries mainly exchange FDI in the field of high technology, which is a requirement for the production of technologically sophisticated and globally competitive products. Over the past three decades, FDI has mostly been channeled through transnational corporations, and, therefore, can be considered as the main carrier of the globalization process.

Although the global economic crisis has significantly contributed to the global reduction in FDI, it remains a key instrument through which national economies encourage production, import know-how, develop infrastructure, increase export and employment. In addition, FDI positively impacts the payment and trade balance, as well as the collection of direct and indirect taxes.

Globalization stimulates growth and flow of FDI between countries, primarily in the service sector where they are the most represented. Global integration of financial markets has significantly reduced FDI barriers. All these factors increase the chances of growth and development both of developed and developing countries.

Official organizations' data on the value of global FDI varies. For example, OECD experts report that in 2016 global FDI amounted to \$1.613 billion, being less by 7%, compared to 2015. Nevertheless, global FDI in 2016 was higher than in some years in the period from 2009 to 2014. The share of FDI in GDP, in global terms, was 2.2% in 2007, well below the level of the global economic crisis (3.6% of GDP) (Foreign Direct Investment Statistics: Data, Analysis and Forecasts). According to UNCTAD, due to the low growth rate of the world economy (about 2.4%) and trade (around 1.7%, the lowest level since the financial crisis) (World trade growth likely at 1.7% in 2016: Azevedo), global FDI inflow in 2016 amounted to \$ 1.52 trillion, which is by even 13% less than in 2015. The decline in FDI inflow was not the same in all regions and reflected the heterogeneous current impact of the economic environment on countries around the world (Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017, 2017, pp. 1-7).

The inflow of FDI in 2016 in developing countries amounted to about \$600 billion and was down by 20%, compared to 2015, while in developed countries it reached \$872 billion and was down by about 9%, compared to 2015. The lowest FDI inflow (\$52 billion) in 2016 was recorded in transition countries and increased by 38%, compared to 2015. Foreign direct investment inflows to developing Asia shrank by 15 percent to \$443 billion in 2016, the first decline since 2012 (World Investment Report 2017).

FDI inflow into Europe in 2016 amounted to \$385 billion, a decrease of about 29% compared to the previous year. Some European countries recorded large fluctuations in FDI inflow. This decline was due to modest growth in investment flows in North America (6%) and significant increase in investment in other developed countries, primarily in Australia and Japan.

The slowdown in economic growth in countries of Asia, Latin America, and the Caribbean, on the one hand, and the decline in commodity prices, on the other hand, led to a global reduction in FDI inflows in developing countries in 2016, compared to 2015, by about 20% (about \$ 600 billion). However, these countries continue to account for half of the 10 most important countries by FDI inflow.

In 2016, FDI inflows to transition countries increased by 38%, compared to 2015, reaching around \$52 billion, which largely reflected the increase in FDI inflows in Kazakhstan and the Russian Federation (Kazakhstan: Foreign investment). FDI in 2016 reached \$20.6 billion in Kazakhstan, which was by about 40% higher, compared to 2015. In the Russian Federation, after reaching a record level in 2013, FDI inflow rapidly diminished since 2014. This was caused by geopolitical tensions between Russia, Ukraine, and Western countries, as well as the current economic crisis in the Russian Federation itself. Thus, in 2015, the inflow of FDI into the Russian Federation decreased by 92%, compared to 2014. Nevertheless, FDI inflow in 2016 increased by 62%, compared to 2015, reaching \$19 billion, mainly as a result of the privatization of the oil company Rosneft (Russia: Foreign investment).

UNCTAD experts predict the growth of FDI in 2017 by about 10% (Global FDI Flows Slip in 2016, Modest Recovery Expected in 2017, 2017, pp. 1-7), but it is quite uncertain. One should expect faster growth of the world economy and the volume of global trade. Economic activity in developed countries, on the one hand, and between emerging economies and developing countries, on the other hand, should encourage investment activities. However, differences between countries in terms of economic development and the presence of uncertainty in the implementation of economic policy can significantly limit such activities.

## 2. Characteristics of FDI in the Republic of Serbia in the period from 2006 to 2016

Net FDI is very important for the economic development of the Republic of Serbia. To prove this, we will first analyze the relationship between net FDI and real GDP growth over the eleven-year period (2006 to 2016), and then the distribution of FDI by sector.

Net FDI in the Republic of Serbia in the period from 2006 to 2016 amounted to €16.939 billion (see Table 1). Due to the accelerated process of privatization of social and state enterprises in the period from 2006 to 2009, net FDI of €8.340 billion was recorded, which is 49.23% of all net FDI in the Republic of Serbia in the period from 2006 to 2016. Nevertheless, the total amount of net FDI in the Republic of Serbia in this period was significantly lower than in more developed transition economies. The problem is also that FDI occurred mainly in the sector of non-tradable goods – telecommunications, banking, insurance, energy, real estate, and retail. Distributed in this way, FDI can also cause negative consequences if it does not generate foreign exchange inflows.

Growth of net FDI, as a rule, should contribute to real GDP growth or a decrease in oscillation rates of real GDP growth. In the period from 2006 to 2008, the average annual real GDP growth rate was 5.4%, while the average annual growth rate of net FDI was 40.2%. Nevertheless, in the period from 2009 to 2016, the average real GDP growth rate was significantly lower (0.3%) than the average growth rate of net FDI (36.4%).

Table 1 FDI and GDP trends in the period from 2006 to 2016

<i>Years</i>	<i>Net FDI (in 000 000 €)</i>	<i>GDP (in 000 000 €)</i>	<i>Real GDP growth (in %)</i>	<i>Net FDI growth (in %)</i>	<i>FDI/GDP (in %)</i>
2006	3.323	24.435	4,9	165,84	13,6
2007	1.821	29.452	5,9	-45,20	8,6
2008	1.824	33.705	5,4	0,20	7,4
2009	1.372	30.655	-3,1	-24,77	6,7
2010	860	29.766	0,6	-37,33	3,8
2011	1.827	33.424	1,4	112,40	9,9
2012	242	31.683	-1,0	-86,76	2,4
2013	769	34.263	2,6	217,75	3,8
2014	1.236	33.319	-1,8	60,86	3,7
2015	1.804	33.491	0,7	45,90	5,4
2016	1.861	34.098	2,8	3,10	5,5
<b>Total</b>	<b>16.939</b>				

*Source:* Data for the period from 2006 to 2015 taken from: *Public Finances Bulletin*, (2016) 148 (12), Belgrade: Ministry of Finance, pp. 16-18. Data for 2016 taken from: “Economic activity. Job market. Balance of Payments and Foreign Trade”. (2016) Quarterly Monitor of Economic Trends and Policies in Serbia, No. 47 (10-12), Belgrade: Foundation for the Advancement of Economics, pp. 11-29.

The total inflow of net FDI in the period 2013-2016 amounted to €5.670 billion. The increase in net FDI inflows in 2014, 2015, and 2016 was the result of a gradual recovery of the world economy, especially the eurozone economy, as well as strong stimulating economic policy measures.

Data in Table 1 provides an opportunity to analyze the relationship between the relative real GDP growth and the relative net FDI growth in the sixteen-year period. The results of the analysis are the following:

- In 2006, there were high real GDP growth rates and net FDI growth, compared to 2005;
- GDP in real terms increased by 1% (from 4.9 to 5.9%) in 2007, compared to 2006, while net FDI declined by 45.2%, compared to net FDI in the previous year;
- In 2008, there was a mild fall in real GDP in relation to the previous year (from 5.9% in 2007 to 5.4% in 2008), but also a rise in net FDI by 0.2% relative to the level of net FDI in 2007;
- Real GDP decline of 3.1% was registered in 2009, while net FDI dropped by even 24.77%, compared to the level of net FDI in 2008.

In the period from 2010 to 2016, there were drastic net FDI fluctuations (growth and fall), as well as slight fluctuations in the trend (real growth and real fall) of GDP.

Data in Table 1 shows that, in certain periods, there was a rise in net FDI and real GDP growth. However, real GDP growth rates did not follow net FDI rates. Real GDP growth was based on increased consumption, generated from realized privatization revenues.

FDI inflow into the Republic of Serbia in 2016 amounted to €1.861 billion. However, foreign companies took about €1.4 billion from the Republic of Serbia in 2016. Approximately €700 million were taken out of the country untaxed under the so-called intercompany borrowings. This is due to the inadequate taxation of foreign investors and other benefits offered to them. Some investors get large subsidies, avoid paying tax on profits, limit workers' rights, and pay low salaries. In addition, some foreign companies give loans to their branches in the Republic of Serbia. Although the investment model in the form of loans is represented in international business, it is not always entirely justified. It is arguable whether loan can be treated as investment, because it must be repaid (with interest).

Government investment is now about 3% of GDP, while domestic investment is 10% of GDP and, together with foreign investment, accounts for around 15% of GDP. Both public and private investment is now less than it should be. In the structure of total investment, FDI share is relatively high – over 5.5% of GDP or about 30% of total investment. To achieve high economic growth rates, domestic private investment should increase to around 15% of GDP, government to 4-5% of GDP, while FDI should continue

to be over 5% of GDP. With this, the Republic of Serbia would approach the desired level of total investment of 25% of GDP, where investment in infrastructure would be a key factor in accelerating economic growth and development.

The Government of the Republic of Serbia must constantly work to strengthen macroeconomic stability and improve the investment environment so that foreign investors are motivated to invest even without large state subsidies. If there is macroeconomic stability and legal certainty in the country, citizens are more willing to save in order to spend more in the future. This is indicated by the experience of Bulgaria, where domestic savings rate is about 25% of GDP. Bulgaria's growth is similar to the growth of the Republic of Serbia, but Bulgaria's growth is more sustainable because it relies more on country's own resources. The Republic of Serbia still largely finances projects with foreign funds, which can cause major problems in the balance of payments in the future.

In order to recognize the real effects of FDI in the Republic of Serbia, it is necessary to identify the ways in which foreign companies take profit abroad and return it to their central offices. Taking profit is legal when foreign companies pay dividends to owners. However, there is also a matter of illegal profit taking. Foreign companies achieve this by “inflating” the prices of import materials, which reduces their profit in the Republic of Serbia. Regardless of the fact that this problem has existed for several years and that contracts have been terminated with many foreign investors, the attitudes of Serbian state authorities towards these investors have not changed. For example, even two thirds of the total subsidies have been given to foreign investors, which is why the indebtedness of our country has increased by about €165 million.

The real effects of FDI should not be overestimated. In the long run, in addition to numerous benefits, FDI also has some consequences. Therefore, the final evaluation of the benefits that the FDI provides to the Republic of Serbia should not be linked for a period of 3 to 5 years, but for a period of 15 to 20 years. Since foreign investors do not stay in the Republic of Serbia for too long, it is difficult to identify the total real effects of their investment.

### **3. Contribution of FDI to Serbian export**

Thanks to FDI, the Republic of Serbia has improved the technological structure of export in the last decade. Although the share of commodities of lower processing phases in total export is still high, export has increased significantly to countries from which large FDI inflows came, such as Italy and Germany, primarily referring to products from newly-founded companies.

The inflow of FDI into the Republic of Serbia by 2008 mainly focused on the purchase of local monopolies (or oligopolies) in the fields of finance, retail trade, energy products, cement and cigarette production, which had a negative effect on its balance of payments. After that, there was an increase in investment into more sophisticated production capacities, primarily due to the arrival of companies such as: FIAT, Jura, Panasonic, and Ball Packaging. This confirmed the rule, which is often encountered in economic literature and business practice, that FDI contributes to export only if there is an absorption capacity for the application of advanced technology. In the Republic

of Serbia, since the crisis, the focus has shifted to attracting FDI in the manufacturing industry. There are tax incentives when hiring new workers, as well as a free offer of infrastructure necessary for the operation of the company, reflected in technological parks. It is encouraging that the share of FDI in industry in recent years was almost two fifths on average, which is twice the average for the first decade of the 21<sup>st</sup> century (Nikolić, 2017, pp. 137-138).

Table 2 shows a comparative overview of the growth of exports of goods and services in the GDP of the Republic of Serbia and selected countries. It is evident that the Republic of Serbia has made significant progress as it increased the share of its exports of goods and services in GDP from 32.9% in 2010 to 50.9% in 2016. In 2016, the Republic of Serbia managed to achieve a higher share of exports of goods and services in GDP, compared to almost all Western Balkan countries. Exports of goods and services grew in the observed period mainly due to the recovery of global demand, especially in the countries of the European Union, which are the largest export markets of companies from the Republic of Serbia. Nevertheless, compared to Bulgaria, and especially the Czech Republic, the Slovak Republic, and Hungary, the Republic of Serbia is still significantly lagging behind them, judging by the value of the observed indicator. Over 50% of Serbian export is realized on the EU market (Krstić, Stanišić, Stojanović, p. 359).

Table 2. Share of exports of goods and services in % of GDP

	2010	2011	2012	2013	2014	2015	2016
Albania	32,4	34,0	33,4	35,5	28,2	27,3	28,7
B&H	29,7	32,1	32,4	33,8	34,1	34,6	/
Bulgaria	50,2	59,1	60,8	64,7	65,0	64,1	63,6
Montenegro	37,0	42,3	43,7	41,3	40,1	42,5	42,2
Czech Republic	66,2	71,3	76,2	76,9	82,6	83,0	80,3
Croatia	37,7	40,4	41,6	43,0	46,4	50,0	51,4
Macedonia	39,8	47,1	45,3	43,4	47,7	48,8	49,2
Hungary	82,2	87,2	86,8	86,0	88,7	90,7	92,5
Republic of Slovakia	76,3	85,0	91,4	93,8	91,8	93,5	93,8
<b>Republic of Serbia</b>	<b>32,9</b>	<b>34,0</b>	<b>36,9</b>	<b>41,2</b>	<b>43,4</b>	<b>46,7</b>	<b>50,9</b>

Source: <https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>.

Table 3 gives a comparative analysis of the relative share of net FDI in GDP. In the period from 2013 to 2015, the relative share of FDI in the GDP of the Republic of Serbia was low, compared to most of the countries observed. The reasons are the following: unstable political situation, frequent elections, government reconstruction, and high budget deficit and public debt. All this gave investors an indication of an unstable environment. During 2015 and 2016, there was a slight increase in the relative share of net FDI in GDP. This increased chances of GDP growth and exports of the Republic of Serbia.



Table 3. Share of net FDI in % in GDP

<i>Countries</i>	<i>Year</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>Average 2012-2016</i>
Albania		7,5	9,8	8,7	8,7	9,2	8,8
B&H		2,3	1,7	2,8	1,8	1,6	2,0
Bulgaria		3,3	3,6	3,6	5,5	2,4	3,7
Montenegro		15,2	10,0	10,8	17,4	5,4	11,8
Czech Republic		4,5	3,5	3,9	0,9	3,4	3,2
Croatia		2,6	1,6	6,9	0,3	1,9	2,7
Macedonia		3,5	3,7	0,5	3,0	5,3	3,2
Hungary		8,3	-2,8	9,3	-4,4	-7,3	0,6
Republic of Slovakia		1,9	1,0	-0,4	1,3	4,0	1,6
<b>Republic of Serbia</b>		<b>2,4</b>	<b>3,8</b>	<b>3,7</b>	<b>5,4</b>	<b>5,5</b>	<b>4,2</b>

Source: *Public Finance Bulletin* (2017) 154 (6), Belgrade: Ministry of Finance, p. 9; <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?location>.

In order to contribute significantly to GDP growth, the Government of the Republic of Serbia should work to increase the FDI inflow to the real sector, with selective targeting of branches that can contribute to export growth. This investment expands the possibilities for transfer of modern technology into different segments of the national economy.

In the Serbian economy sector of small and medium-sized enterprises (SMEs), plays an important role. The share of this sector in Republic of Serbia in the total number of enterprises is 99.8% and in the total number of employees 65%. SMEs accounted for 54.1% of total gross value added of non-financial sector and for 43.2% of total exports of non-financial sector in 2013. Also, only 4.4% of all Serbian SMEs recorded net income from exports. (Financing SMEs and Entrepreneurs 2016). FDI enables the integration of domestic SMEs with foreign companies. By manufacturing parts, assemblies, and sub-assemblies, as well as providing services for companies in developed countries, primarily in the countries of the European Union, the SMEs sector can increase commodity export of the Republic of Serbia.

The structure of net FDI in the last few years shows that most new FDI was in the manufacturing sector. The interest of the Republic of Serbia is that the future foreign investment is directed mainly to the manufacturing sector (manufacturing and construction industry), in which the tradable goods will be produced. The Government of the Republic of Serbia should continuously work to improve the investment climate, in order to increase FDI that would improve the production structure and increase international competitiveness of products.

## Conclusion

In conditions of high external indebtedness of the Republic of Serbia, FDI is an important supplement to domestic sources of financing. Nevertheless, FDI in the observed period (from 2006 to 2016) did not significantly contribute to GDP growth of the Republic of Serbia. This was due to the fact that the government followed an inadequate model of transition and a very bad model of privatization.

FDI led to the improvement of the technological base of Serbian companies, as well as to the growth of production, export, and GDP. However, before any foreign investment, the Government of the Republic of Serbia should carefully examine investors' programs and evaluate their long-term plans. By developing FDI flow control mechanisms, the government could limit foreign investors' influence on regulation and economic policy, as well as the possibility that their investment becomes an instrument of “colonization”.

Unfortunately, the state authorities of the Republic of Serbia are still using state subsidies as the main tool for attracting investment. In the observed period (from 2006 to 2016), the Government offered foreign investors large subsidies, but this had little effect on economic and export growth. It has been shown that subsidies can help in a particular case, but they do not provide equal conditions for doing business for all. On the contrary, state aid attracts those investors from the labor-intensive branches, who count on cheap labor and a large volume of production, but do not bring higher capital. If money for subsidies was invested in infrastructure, roads, education, and a high-quality information system, the entire economy would benefit, business costs would be reduced, and opportunities for new investment created.

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## CREATING A STATE BRAND: A BRAND AND BRANDING SERBIA<sup>4</sup>

### Abstract

*The states make different attempts to attract more tourists, foreign investors, develop the international partnerships, stimulate export, make better position for their products and services, but also to position and impose itself more efficiently, meaningful and innovative, by the personally recognizable brands, to the international environment. Aiming at this, it is not only necessary to devote oneself to branding of a country, but to do it in a way that significantly differs from others, which initially favours the positive branding of the country. The subject of this paper is to analyse the significance of state branding and measuring the state position as a brand, as in the case of Serbia. For Serbia as a brand, there are characteristic numerous efforts on its positioning, but also numerous obstacles that are on that way.*

**Key words:** brand, state, branding, strategies.

**JEL classification:** Z32, Z33, M30

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## КРЕИРАЊЕ БРЕНДА ДРЖАВЕ: БРЕНД И БРЕНДИРАЊЕ СРБИЈЕ

### Апстракт

*Државе чине различите покушаје да привуку што више туриста, страних инвеститора, да развију међународна партнерства, да стимулишу извоз, да што боље позиционирају своје производе и услуге, али и да се путем персонално препознатљивих брендова, што ефикасније, смисленије и иновативније позиционирају и на само себи својствен начин, наметну међународном окружењу. У том и таквом циљу, није само неопходно посветити се брендирању земље, него то учинити на начин који се озбиљно разликује од других, што у старту даје предност позитивном брендирању земље. Предмет овог рада је анализа значаја брендирања земље и мерења позиције земље као бренда, на примеру Србије. За Србију као бренд, карактеристични су бројни напори на њеном позиционирању, али и бројне препреке на које наилази на том путу.*

**Кључне речи:** бренд, држава, брендирање, стратегије

### Introduction

Increasingly harsh and merciless competitive struggle on the market is just one of the numerous consequences of a modern and complex business environment. In such, mostly harsh conditions, the competitive struggle takes place as at the companies' level, as well as at the level of the concrete states. Modern society in which prevail electronic media, social networks, fast and almost everywhere accessible internet, provides us freedom and makes the possibilities to present ourselves as better as possible through the virtual presentations, both as individuals and the state. We make a personal seal that brands us by choosing our wardrobe, faculty, a vacation location or a number of social networks we are attached to. We become our personal PRs by sharing certain personal information, who wants to present their „product” as better as possible. By branding ourselves, our city or our country, we present ourselves – a brand which we know the best.

When a certain person hears a word *brand*, he/she usually thinks about some world famous company, its logo, a trademark or the products that the company produces. The initial thought leads to identification of an individual's favourite brands (*Nike, Adidas, H&M, Zara, Mango, Coca-Cola, Nestle, Swatch...*). The products long since haven't fulfilled only their functional value, but have presented the companies that created them and people who used them, their way of life, cultural characteristics, beliefs and values. Branding a country in modern, already mentioned conditions and environment, which change continuously, is neither simple, nor easy task to achieve. The task cannot be approached lightly and cursorily.

The state brand represents a rather abstract concept, while it doesn't contain any concrete, „tangible“ offer. At the same time, it is very complex, because it encircles almost all spheres of life of the state: its population, history, culture, language, political and economic system, celebrities...The chosen strategy, in order the country to be better

branded in international conditions, is a key and determining factor. It is an imperative that it is sufficiently original, courageous, inspiring and surprising. If the strategy has satisfied all or most of conditions, than it is „only“ necessary to motivate and unite all interested around, and send messages properly and interact with the already defined goal.

The importance of the state, city, or a particular region brand is not only to attract tourists, but also in creating the image and the reputation of the state. In Serbia there are significant, yet still unused opportunities in tourism, which require a serious approach, knowledge, creating and commitment to the process of building identify and image of tourism destination (Vranić et al, 2014). It should distinguish between three concepts: the branding of the place, the nation branding and branding of destinations. According to the Novčić-Korać and Šegota (2017) Serbia has failed to develop a coherent platform for brand management of the nation at the highest strategic level, mostly due to poor or incorrect understanding of the concept as it is not separated from the branding destination and tourism marketing.

The aim of the research in our paper is to identify the positions of Serbia as a brand in regard to other countries and pointing out to the need for an adequate approach and active brand management of a country, which ultimately contributes both to companies and the entire society.

## Identification and complexity of a state branding issue

The irrepressible process of the world globalization, which surrounds us, is so intensive that sometimes seems that the whole planet turns into a gigantic supermarket in which nations are treated as the shelf products, which desperately try to attract the customers' attention. It is completely clear that the states, as well as the regions and towns within, must fight "tooth and nail" for their place in the sun in this 21st Century cruel world. Therefore, it is absolutely clear that branding the nation is not a luxury, but on the contrary, it is an imperative.

Modern environment has caused a need to consider a brand at the completely level – the state level. In that sense, the state starts to be "a product" that should be offered on the market. Nevertheless, the state couldn't be observed as a conventional product, since it covers a wide range of factors and associations: location, tourist attractions, natural resources, local products, people, ethnical groups, history, culture, language, political and economic systems, institutions, infrastructure, celebrities and image. A term "branding a state" is still relatively a new term. "Nation branding refers to the overall image of a state, which includes the political, economic, historical and cultural dimensions." (Fan, 2006, p.8). This author also makes a difference between the concepts „the nation branding" and „the nation's brand“, and in this way considers that the nation has a brand, whether the branding activity realizes or not, and this is why it considers that „the nation branding cannot be observed as a cure for everything that is „not good“ in a country's image“ (Fan, 2006, p.11). It is absolutely clear that branding the state is an *exciting* and *complex* phenomenon. It is exciting, because there is a relatively modest theoretical coverage of this phenomenon, but also a significant amount of practical activities in the real world, while the complexity of the phenomenon reflects in the involvement in several levels, dimensions and disciplines, which exceeds the conventional branding

of a company and/or a product. Branding the state has undoubtedly three types of key impacts: on the position of a state in international policy, attracting foreign investments and tourism (Vranješ et al, 2014).

Taking into consideration everything the abovementioned, there can be concluded that the national branding is a complex process, which aims to differentiate the country from other countries in international environment, and also positioning the country in accordance with its specificities, in order to strengthen an image from the political, economic, social, historical and cultural point of view. The state is the one that should protect and supervise one country's brand, but it surely must be taken into consideration a fact that population of a country is the main carrier of the branding process. Simply, as Skoko (2009, p.10) stated, there must find the way to attract the attention of others and tell them the story of themselves in a way that will create followers, customers, lobbyists and friends among them, or at least reduce the number of enemies.

### **Measuring the position of a country's national brand**

A brand of the country, which it tries to create, should make the perception on the country; provide the country's differentiation in regard to other countries, as well as more successful positioning. The country's branding process implies the formulation of the appropriate communication strategy that should make countries attractive to the target audience. One of the ways to measure the country's position as a brand was presented by the consulting house *Bloom Consulting*. The *Bloom Consulting*, which sees the country's brand as a property of the state population that should be managed, and it develops so called *Bloom Consulting CRC Brand Wheel*, which shows 6 different dimensions in branding countries, regions and towns: attracting investments (trade), attracting tourism, attracting talents, increase of pride, improving public diplomacy, increase of export (*Bloom Consulting Country Brand Ranking, Tourism edition, 2013*). Each of the mentioned dimensions has a different target audience with different needs, and therefore, it is necessary to develop also the specific strategies for each of them, in order to achieve the clear differentiation of the country. Traditionally, these dimensions were measured by public opinion, perceptions and interviews with experts. However, the *Bloom Consulting* improves the entire measurement process by using the adequate tools, i.e. an algorithm, on the bases of which define a rank of the certain countries' national brands.

In order for the state to have a better brand, it has to be better as well. We can define the state according to its roles, i.e. international and internal. At the international level, the state is sovereign. The sovereignty of a state makes its internationally recognized borders and the total power of the state within these borders. According to its internal role, the state is a coercive apparatus, which ensures that the state's population fulfil their legal obligations. There are more than 200 states in the world today, and it is logical that each of them tries to be recognizable. The key is to build a national identity based on the comparative advantages and the creation of a positive image on a country that will contribute to products from this country.

The concept of branding is mainly related to corporations and their products. Nevertheless, theoreticians are increasingly paying attention to a state brand, which doesn't only represent the opinion of foreigners about one country, but refers also to tourists,

investments, increase of export, increase of reputation, greater chances for lobbying. The state branding requires a serious approach to the problems, regardless whether the state will perform this activity independently or will engage the specialized brand building companies. Often, the term brand keeps confusing concepts with hymn or flag. From a marketing point of view, we can observe a flag as a country's logo. The state as a brand represents the combination of individual destinations, products, services, people, manifestations (events), processes, ideas etc. It is a feeling that occurs to an individual in the sense of a nation or state. National identity, simply said, is a sense of belonging to a state or nation. The creation of branding strategy is first of all a research work, because the contents we present to others must be found in our history, culture, way of life; otherwise, if the strategy doesn't agree with truth related to people and places, the state population are less likely to believe in it, and not to mention the rest of the world. While in branding of a company take part all of employees, in branding of a state the situation differ – there can always be an individual or non-government organization to inform the world that the situation is different. The conclusion is clear - if we speak about the state branding, we must start from the national identity, while the best example of the identity promotion is continuity, and there is no identity without continuity. The most common the countries are recognized by their people, events, gastronomy, architecture, while the media helps in it. If a state doesn't offer anything the abovementioned, it cannot become a brand. Considering that, in branding the state or some other destination, there should start from their geographic, personal, institutional and events branding. Events are very useful for the country that from the standpoint of finance, because it is estimated that her every dinar invested by foreign tourists back tenfold, and from the standpoint of improving the image. Necessity in a complex analysis of the marketing activity is caused by the necessity in making the right management decisions, its conditions and requirements for benefits and opportunities for improvement. In the sphere of performance criteria no generalized point of view of marketing activities (Ivanova et al, 2017). For instance, according to Hall (2004), location branding is a hot topic throughout the world, not least in the UK, principally as a key driver for tourism, inward investment and/or export revenue. International tourism receipts into the UK have been in long-term decline in an increasingly competitive market. The noted author analyses the question of how a highly diverse Britain should be cohesively positioned to meet the demands of the future and the changing visitor.

However, there is interdependence between a country of origin and a production brand when the essential characteristics of a particular product category are also significant associations to an image of a country of origin, which are based on the stated basic dimensions of that image. If there is no such connection, then we have a neutral relationship between a production brand and an image of a country of origin. Design and prestige can be very important characteristics when a consumer thinks about buying a car, TV, camera, watch, leather shoes, but also the relatively irrelevant characteristics if a consumer considers buying a product.

Interdependence between the image, and production brand and the country of origin image is present if the production-marketing dimensions of the image of the country of origin (innovation, quality, design, prestige, production skills) are also the important characteristics for evaluating a particular category of the production brand.

Favourable interdependence of the image of the country of origin and the production brand is present in case when a certain dimension of the positive image of the country



of origin considers as an important brand characteristic. Unfavourable interdependence is present when an important characteristic of the production brand is considered as a dimension of the negative image of the country of origin.

## Serbia as a brand

In order that a country like Serbia would appear and distinguish itself in the global arena, it is necessary, first of all, to become “visible”. Besides, the problem is in numerous attitudes and biases that have become established, as well as the lack of a clear vision and an adequate strategy of Serbian national branding. The national brand of Serbia, observed from the ability to attract tourism point of view, has currently pretty unsatisfying rating in regard to countries covered by the *Bloom Consulting* rating. The positions of Serbia, as well as the other ex-SFRY countries, were shown in table below.

*Table 1: Review of ranks of ex-SFRY countries as brands from the attracting tourism point of view*

Country	Rank 2011	Rank 2012	Rank 2013
Serbia	87 <sup>th</sup>	77 <sup>th</sup>	96 <sup>th</sup>
Montenegro	100 <sup>th</sup>	102 <sup>nd</sup>	95 <sup>th</sup>
Bosnia & Herzegovina	88 <sup>th</sup>	91 <sup>st</sup>	113 <sup>rd</sup>
FYR Macedonia	122 <sup>nd</sup>	115 <sup>th</sup>	146 <sup>th</sup>
Croatia	29 <sup>th</sup>	19 <sup>th</sup>	27 <sup>th</sup>
Slovenia	55 <sup>th</sup>	46 <sup>th</sup>	48 <sup>th</sup>

Source: Table is a result of summarizing data of the *Bloom Consulting Country Brand Ranking (Tourism edition)* report for the years 2011, 2012 and 2013

As we can see in Table 1, there can be concluded that in all three years the best ranked country in the group of ex-SFRY countries was Croatia, and the worst ranked was Macedonia. Data concerning Serbia showed the trend of its national brand position by years.

According to the abovementioned data, relatively observed (taking into consideration a different number of countries comprised by ranking by years), we can conclude that the national brand of Serbia had increased its rating in 2012, and then had decreased in the year 2013. Serbia has the unsatisfying image in a global context. Excuses for a bad rating were looked for in the past, while the negative image of the country has been credited to the serious political and social-economic problems.

Domazet and Hanić (2012, pp. 600-605) point to the existence of major weaknesses in national branding Serbia among which are most important:

- Lack of systemic approach related to the development of the national brand of Serbia;
- Lack of a strategy for improving the national brand of Serbia;
- Lack of marketing and communication strategy of the national brand of Serbia;
- Underestimating the importance of national branding to improve the country’s economic potential (exports, inflows of foreign investments, tourism);

- Low level of financial investment in the national branding process;
- Inefficient institutional structure and coordination between individual institutions in charge of building a national brand;
- Insufficient cooperation between the private and public sector in the development of the national brand.

Exactly „the negative image and stereotypes have a bad influence already in the early stages of decision-making (i.e. intentions for searching data on a destination), owing to which is necessary to assess carefully the perception of potential tourist image, who would potentially visit the destination for the first time, and choose and implement the strategy of the destination re-branding.“ (Bosnjak, 2010, p. 327). In the process of re-branding Serbia, we shouldn't go in parallel with the negative image from the past. Exactly the opposite, Serbia should identify its key, specific values and build a campaign upon them. In that way, precious time, which can be used more efficiently, won't be lost. As a problem often appears the inadequate implementation of the country's branding process, which reflects in completely poorly designed and uncoordinated campaigns followed by an attractive logo and leasing expensive advertising space. In that case, the image of the country will not only be improved, but will be additionally violated. Therefore it is necessary to approach this long-lasting and demanding process in a serious and organized way. The first step to take is to form an action group that would actively direct the process at all levels – public sector, government institutions, companies, cultural and educational institutions, non-government organizations, public, etc. Only in this way it is possible to avoid the abandonment of the process to spontaneous treatment, which can significantly slow down progress, moreover, it will lead to a downturn. Before defining the vision and strategy of building the brand of the state, as well as in the case of a classical product or service branding, it is necessary to conduct some research of the target markets. It is necessary to interview population of the country, foreign tourists, investors, experts and the other stakeholders in order to get to know the current perceptions related to the country.

## **The role of tourism in branding Serbia**

Tourism is often the most visible aspect of the national brand. As in modern world more money is spent on various tourist trips, it is understandable the desire of all countries to take as much of a cake as you can and to point out to natural beauties, geographic position and the wealth of cultural and historical monuments through ads, spots and other promotional campaigns (Manić et al., 2012). As one country is more attractive to tourists, it is better ranked, i.e. it has a stronger brand. The Republic of Serbia definitely has a good tourist potential although it has no access to the sea. Much of this potential is still unused. For example, it is also proved by the comparison of Serbian competitiveness in regard to countries-its main competitors. In the Tourism Development Strategy of the Republic of Serbia, the following countries are listed: Bulgaria, Czech Republic, Hungary, Romania and Slovakia. There should be emphasized that in every of these countries prevail the continental tourism, as well as in Serbia. In table below are shown the ranks of these five countries and Serbia as well according to the *TTCI*

*index*. According to Ubavic (2015), this index is a useful analytical tool, despite of some imperfections. Serbia should surely use the indicators of this index in order to compare itself with other countries as the tourist destinations, as well as improve its potentials and better show up as a brand.

*Table 2: Competitiveness of Serbia in regard to the main competitors in 2015*

Country	TTCI Index	Rank in the world	Rank in Europe
Czech Republic	4.22	37/141	21/37
Hungary	4.14	41/141	25/37
Bulgaria	4.05	49/141	28/37
Slovakia	3.84	61/141	31/37
Romania	3.78	66/141	32/37
Serbia	3.34	95/141	35/37

Source: Downloaded from *The Travel & Tourism Competitiveness Report, 2015*, [www3.weforum.org/docs/TT15/WEF\\_Global\\_Travel&Tourism\\_Report\\_2015.pdf](http://www3.weforum.org/docs/TT15/WEF_Global_Travel&Tourism_Report_2015.pdf).

If Serbia would like to change these parameters, it should create a redacted tourism development strategy, which would comprise business, urban, rural and mountain tourism, as well as the development of tourism on the Danube and the thematic circular tourist tours, like the Roman Emperors Route. In first seven months 2015, measured by a number of overnight stays, the highest turnover was recorded in mountainous areas (1,110,534 overnight stays), which was also the biggest increase (16.5%) in regard to the same time period in 2014. This trend is the result of a number of overnight stays increase, as domestic ones (953,522) for 16.0%, as well as foreign tourists (157,012) for 20.0%. In Belgrade was recorded the increase in total number of overnight stays (14.6%) in regard to the period January-July 2014, where domestic tourists (144,708) were recorded the increase of 9.0%, and foreign tourists (677,074) for 15.8%. According to the registered number of overstay nights, the domestic tourists were mostly stayed in mountain centres and then in spa resorts (974,547 overnight stays) etc. Foreign guests, who were recorded 1,339,502 overnight stays in the Republic of Serbia, in the period January-July 2015, have mostly stayed in Belgrade (677,074) or the increase of 15.8% (<http://mtt.gov.rs>).

The most significant place in the religious tourism is reserved for churches and monasteries from the time of the medieval Serbian state. At the same time, tourists have the greatest interest in them. Religious facilities on the area of Serbia have played a significant role in preservation and cherishing of the Serbian national identity and culture. Nowadays, these are the places of pilgrimage. Monuments of the medieval Serbian architecture have been created since the beginning of IX Century, all the way to XVII Century. In that huge time range, in all Serbian areas and regions under the rule of Serbian rulers, have been built several hundred churches and monasteries, of which many have been preserved to date, whether in their original or slightly changed appearance. They were built in different times and different styles, depending on influence – West or East, Byzantine or the influence of Sveta Gora. Gorgeous paintings, iconostases, frescos within these beautiful buildings were preserved. In some of them, the relics of some of the greatest Serbian rulers can be seen. Some of the most famous are Studenica, Sopoćani, Žiža, Manasija, Ravanica. These monasteries are generally a

real cultural and social immense wealth, and they represent a fine and cherished image on our religion.

Spa resorts in Serbia have a long tradition and have always been the favourite places for vacation. Spa centres in Serbia are located at the foot of mountains, surrounded by woods, protected from strong winds; they have a mild climate and are environmentally friendly. Serbia is very rich with thermo-mineral springs, whose waters by their chemical composition, temperature and other properties, allow treatment and therapy of almost all diseases for which spas are recommended. Tourism, vacation and rehabilitation are the perfect combination that can be offered to tourists. Most of spa resorts are in some of 53 thermal localities, which have been used as bathrooms since the ancient Roman times.

Many of Serbian mountains were proclaimed as the national parks, with a varied selection of the accommodation possibilities and their exceptional beauties and untouched beauties they were representing the exceptional natural potential of our country. In first ten months of the year 2016, the mountain centres were *recorded* 19.2% of total tourist arrivals in Serbia, while the overnight stays were *recording* 26.0%. Tourist traffic in the first ten months was increased for 17.5%, while a number of overnight stays was increased for 16.8% (<http://mtt.gov.rs>).

The Republic of Serbia is the country of extraordinary possibilities for vacation in the countryside. It is the preserved nature, clean air with a smell of hay, flowers, pine trees and pastures, clear river and streams. Guests here can really rest and enjoy the peace of nature or can be active all day long. Vuković and associates (2015) point out rural tourism development should be based on the rich pension and out-of-pension tourist offer. Presence of natural and human (anthropogenic) sources must be a marketing and management leading to achieve certain results. Alternatively, it is already known that numerous families in Serbia have employed their households in the purpose of rural tourism. Their purpose is to provide to strangers and also our businessmen to feel the difference between fruits and vegetables they buy in the markets (supermarkets), which are cultivated in greenhouses, and the ones they pick up in these ethno villages when they get up in the morning.

Manifestations (events) are one of the ways the state can attract both foreign and domestic tourists, ensure a new source of income, present its culture, values and contribute to the new image of the country in general. The assumptions are that tourists will recommend their friends to come to our country, and with the development of the Internet, he is given the opportunity to put pictures on his social networks that his friends will see. In the world, the manifestation tourism, since the beginning of the 1980s, is mentioned as a special industry (Bjeljac, 2006). In Serbia, manifestation tourism, as an economically prosperous type of tourism, is of importance only to the half of the first decade of the 21st century (Bjeljac, 2010). Particularly important is the fact that it is also the first time in strategic documents, especially in the Tourism Development Strategy of Serbia (2006), where this segment of tourism is seen as a great global market potential, which contributes to the return of Serbia to the international market, raising the level of competitiveness and creating a stronger base for marketing activities.

Almost 1000 events in Serbia are held annually and this is something we can boast of, and therefore it is logical a slogan – „Serbia, the country of events“. Modern tourists want to visit new destinations and get to know with the unknown cultures and acquire new experiences through these events. The Ministry of Economy of the Republic

of Serbia, more accurately the Sector for Tourism, points out the following advantages of Serbia: vicinity of Serbia to tourist markets, first of all the EU member countries, affordable prices for foreign tourists, attractiveness of tourist destinations, attractiveness and the global recognition of events (*Exit, Guča, Beerfest* etc.). It is interesting that Serbia is the only European country that could boast with the increased number of tourists (2%) in the year 2009 in regard to the year before. The reason for such success is exactly the traditional events, such as: *Guča, Exit and Beerfest*, but there shouldn't be neglected also the Universiade in Belgrade. These festivals have attracted a million and a half visitors, of which 10% foreign tourists.

Since Serbia is the country that is very proud of its food, while most of tourists praise Serbian tasteful dishes as well, so the events of this type are unavoidable. They always attract numerous visitors, for example *Leskovačka roštiljada (Leskovac Barbeque Event)*, visited by more than 150 thousands people. Besides, we must mention *Pršutijada (Prosciutto or Smoked Ham Event)*, *Slaninijada (Bacon Event)*, and *Kobasicijada (Sausage Event)*. Some of the events have a long tradition, like “*Dragačevski sabor trubača*” (Gathering of trumpeters in Dragacevo) (1961), “*Filmski susreti*” (Film encounters) in Niš, which have been held since the year 1966, while on the other hand we have very popular festivals, which have been established in 21<sup>st</sup> Century, such as *Exit* (2000), *Beer fest* (2003) and *Kustendorf* (2008).

The events are very useful for one country, as from the finances point of view (it is estimated that every dinar invested is returned ten times), as well as from the image improvement point of view. It is estimated that a tourist will recommend to his/her friends to come to Serbia, and along with the development of the internet, there is a possibility of uploading images on social networks, which can be seen by his/her friends.

According to Ivanović and Milićević (2009) the continental areas in Serbia need adequate tourist infrastructure construction for the dynamic development of tourism. It is necessary to determine the tactics for Serbian destinations to become highly respected destinations of preserved natural and cultural values. Serbia lacks well established brands, which means that we should start with the process of marking the different tourist products.

## Conclusion

As in case of a classical product, the image of a country is being created for a long time. However, the image is easy to lose, and therefore should take into consideration a fact that branding is a permanent process, which requires continuous efforts in finding new development opportunities. There is plenty of room for improvement, such as the improvement of a tourist product, development of road infrastructure in order to attract tourists, etc. One of the first steps towards that goal is surely to know the dimensions of national branding, a target audience and their specific needs. However, branding of a country shouldn't be underestimated, but should be treated as a final moment. The efforts invested in branding a country alone cannot solve the problems. Positive change of a country and society will make the positive changes in its brand, and thereby also more favourable positions in global ranking. Thus, the national branding is not alone the goal. The strategy of branding Serbia in fact should be understood as the strategy of

its socioeconomic development, which results should reflect on its populations' general well-being.

The way to create a Serbian brand as a tourist destination is long and requires a lot of investments in those parts of the country, which could be attractive as to foreign, as well as to domestic tourists. It is important to determine some „designation“ from the very beginning according to which Serbia would be recognizable, and then make this „designation“ well known in as many countries as possible, in order to attract as many tourists as possible and bring higher revenues to our country. It is also important to organize intellectually a „logo“ as a positive association to the Serbian tourist offer and work further on its recognition. Maybe Serbia is a small country – in territorial sense of word, but it surely has much to offer, such as numerous beverages and specialties, for which it can be said that they are unique in the world. Besides, the Serbian national costumes are in great demand both of our people in the diaspora and strangers, because their quality is obvious. Institutional, personal and event branding are just parts of the state's branding. Besides many efforts of individuals to present their country as better as possible, like for example Novak Djokovic, who is currently the most famous Serbian brand, and besides the Serbian population efforts to invest in certain events and the production of Serbian traditional dishes, drinks and wardrobe, the state is the one that must play the main role in order to raise it to a higher level, while individuals can only start presenting the country.

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## LEADING ACTIVITY OF EXECUTIVE POWER IN DOMAIN OF SUBSIDIARY LEGISLATION – DECREES AND THEIR CATEGORIZATION

### Abstract

*The central theme of this paper is theoretical consideration of the concept of regulations and their classification. The regulations are the general legal acts of the executive branch, which, by special procedure, are adopted by these bodies. It can be a government (in a parliamentary system) or a head of state (in the presidential and some semi-presidential systems). In most legal systems on the hierarchical scale of the regulation, they are placed under the constitution and laws, and above other by-laws. It is possible to differentiate law enforcement regulations (these are general and executive regulations) as well as regulations on the need.*

*Instead of the conclusion, the authors pay attention to the concept and categorization of regulations in the constitutional system of Serbia.*

**Key words:** executive power, regulations, categorization, constitutional system of Serbia

**JEL classification:** K10, K23, K29

## ВОДЕЋА ДЕЛАТНОСТ ИЗВРШНЕ ВЛАСТИ У ДОМЕНУ ПОДЗАКОНОДАВСТВА - О УРЕДБАМА И ЊИХОВОЈ КАТЕГОРИЗАЦИЈИ

### Апстракт

*Централна тема овог рада је теоријско разматрање о појму уредби и њихова класификација. Уредбе представљају опште правне акте извршне власти које по посебном поступку доносе ти органи. То могу бити влада (у парламентарном систему) односно шеф државе (у председничком и појединим полупредседничким системима). У већини правних поредака на хијерархијској лествици уредбе се налазе испод устава и закона, а изнад других подзаконских*

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*аката. Могуће је разликовати уредбе за извршење закона (реч је о генералним и извршним уредбама) као и уредбе по нужди. Контрола уредби може бити парламентарна и од стране Уставног суда.*

*Уместо закључка, аутори обраћају пажњу на појам и категоризацију уредби у уставном систему Србије.*

**Кључне речи:** *извршна власт, уредбе, категоризација, уставни систем Србије*

## Introductory comments

The absolute domination of the executive power in the field of subsidiary legislation remains unquestionable truth. Subsidiary legislation is its major, already reserved domain (worth noting, the executive power is not the only generator of subsidiary legislation). In theory, it has often been noted that the activity of the executive power is reflected in making abstract legal norms closer to administrative and judicial power for the purpose of creating a situation of a balanced application of laws. This has been achieved by means of decrees. Generic name for the executive power's act is decree, and as such, it remains the most recognized general legal act of this branch of power. The difference between laws and decrees, as separate categories of legal regulations was established in the period of written constitutionality in which a law is considered to be the expression of general will. In the period immediately following great bourgeois revolutions, the legislative power had a respectable supremacy in drafting general legal acts. The entire normative activity was under its exclusive jurisdiction "The law which legislative power establishes shall be executed by executive power". Thus, the division of tasks is following: normative regulation belongs to legislative power, while its execution to executive power. In the strictest sense of this theory, the executive power can pass only those acts which serve the purpose of the execution of laws, the general legal acts passed by the legislative power. However, such understanding of the executive power's role and tasks was not practically feasible. Thus, the execution of laws started to assume that the executive branch of power has both right and duty to perform its basic activity (execution of laws) by adopting subsidiary legal acts. In this way legislative and executive branches of power started to share the role of determining what is law, that is of prescribing normative regulations. Thus, the principle of division of power "very soon assumed the meaning which was not included in the original theoretic scheme" (Jovicic, 2006, p. 380-381). With the appearance of a decree on the legal scene as a general legal act of the executive power, there was a tendency to make a sharp distinction between this act and a law. This was the period of the beginnings of bourgeois democracy and the adoption of first written constitutions. Later on, the line between the decree and the law started to fade as a consequence of the change in understanding of the concept of executive power. In that period the executive power was basically the main representative of monarchy's principle and its protector, but at the same time the political strengthening of bourgeois forces was supposed to prevent its interfering with legislative powers. With the establishment of the republic form of government, the executive power was no longer perceived as the branch of power opposing the people's will. The reason for this lies in

the fact that the executive power itself was the expression of people's will embodied in the head of the state in the presidential or semi-presidential systems or in the government in parliamentary systems representing the emanation of a parliamentary majority and the expression of people's will. The division of normative jurisdiction between legislative and executive branches, which took place in the 19th century lasted until the first decades of the 20th century. In this period the legislative body passed fewer laws (which is not the case with the period we are the witnesses of) that, generally, regulated the individual fields of social life. These laws empowered the executive branch to pass decrees related to the elaboration and concretization of legal provisions. The dominance of the executive power in the normative sphere was particularly strong during the World War I when it could be noticed that, while theoreticians discussed the concept and the scope of application of laws and decrees, the practice witnessed gradual spreading of the application of decrees. „The previous standard regime of passing decrees which only served to facilitate the application, that is the execution of laws, undergoes serious changes with the development of institutes with wide parliamentary powers for awarding of these powers (*pleins pouvoirs, pouvoirs speciaux, pouvoirs exceptionnels, pouvoirs extraordinaires*). Awarding of these powers assumed, even during the World War I, the character of a special legal institute in the legislations of many countries and in the relations between their legislative and executive branches of power. Although these powers were applied in many countries, in some of them they demonstrated specific traits. However, regardless the fact that the relations between legislative and executive powers differed from country to country, some bourgeois democracies, such as France, Switzerland, England and USA, nevertheless applied similar typical practices of awarding these powers and extending the scope of the application of decrees.

### **Extending the scope of decree-passing power and types of decrees**

The practice of extending the scope of the application of decrees, which became particularly intensive during the World War I, continued to be largely accepted in some countries between the two wars, especially during the World War II. Indeed, it could be said that “this practice has not ceased to grow in peaceful times either, not even until present days” (Kamaric, 1960, p. 135). Extending the scope of decree-passing power was the consequence of the circumstances arising from the wars and political and economic crisis. In addition, a more prominent role of the state in economic and social spheres also contributed to the growth of the domain of decree-passing power. The contemporary legal life brings us in front of a dilemma whether only the laws, as the legal acts of supreme power, next to the constitution, can be used for primary and original, generic regulation of all important social relations, or should we allow the executive power to have a growing influence in regulating these relations? In reality, we are witnessing that decrees play an increasingly significant role in regulating important social relations which is the characteristic of the contemporary executive power, that is of its key activity to, via means of administrative power, as its subordinate level of power, permeates almost all aspects of social life. Of course, a decree must be in accordance with a law since it represents an act used for the execution of legal norms. In addition, a decree consists of general legal rules which remain valid *pro futuro*, and

is issued by the branch of power which is both legally and formally subordinated to legislative branch. A democratic state with the rule of law will always request from a decree-passing branch of power to respect the legislative branch of power, that is the principle that the rules of decree cannot be in conflict with the general rules of law. From a substantive point of view, a decree can be defined as a general legal act which in a relatively comprehensive way regulates an important sphere of social relations. By rule, a decree is a form of the execution of law without constituting new rights and duties. Decree provisions have binding force, either ordering an action to take place or banning its execution. In principle, a decree should not regulate social relations which have not already been the subject of legal regulation. In any case, a decree is a legal act of weaker force than a law and must be in accordance with the law. There is, however, another issue that has been largely discussed in French legal theory – whether decrees should be passed only on the basis of a legislative authorization and only for the purpose of the execution of law. In French Third and Fourth Republic there was a prevailing belief that decrees can be issued only on the basis of a legislative authorization and that decree-passing power does not have an autonomous capacity. Unlike the practice that existed in previous French republics, both theoreticians and practitioners in French Fifth Republic adopted the stand that decree-passing power was by its nature autonomous, but that its activation cannot be in conflict with law. In any case, besides the above mentioned substantive conceptualization of a decree, its formal concept assumes that decree is an act of the executive power. The substantive concept of decrees was particularly elaborated in French legal theory by Leon Duguit and his followers. Thus, Leon Duguit quotes Maurice Hauriou: “Laws are general restrictions set to limit the freedom of individual’s activity. Decrees are general rules aimed at securing the organization and execution of public affairs” (Hauriou, 1911, p. 50). In addition, Duguit believed that “a law is, in its essence, just a general rule passed for the purpose of organizing and functioning of a public body. Whether a law in its evolution will eventually become equal to a decree, or on the other side, a decree will come closer to a law, essentially does not matter. What matters is that this transformation has already taken place. Today some rules have already taken the form of a law although they were not passed by the bodies considered to be representatives of people’s sovereignty. Therefore, the concept of law is no longer linked to the concept of sovereignty. We would also like to point out one example why it is difficult to find arguments in favor of making a clear distinction between a law and a decree - a complaint related to unlawfulness and a lawsuit related to overstepping the power can be accepted only when they refer to a decree and not when they refer to a law. The distinction is exact, but there is a tendency to fade out, which has already happened in some countries; yet this distinction does not interfere with the nature of the act itself” (Duguit, 1998, p. 75-76). According to this author and given the fact that he favored substantive conceptualization of decree, the distinction between law and decree, as for their contents, does not exist. The reasoning is that a decree also constitutes a legal rule, which is general, new and relevant to the world of law and represents a change in objective law, as well as that the legal act which is passed according to the decree is equally protected as the one which is passed according to the law. This author further states: “I repeat, a decree is a law in a material sense, since it is an act, a rule, which speaks for itself ... and a decree and a substantive law are the same thing. Despite a lot of effort, I could not find a single difference between them. I will be thankful to anybody who can point it to me”

(Duguit, 1928, p.212). In contrast to this substantive understanding of the concept of decree, there is a formal understanding of the decree coming from the pen of French jurists Raymond Carre de Malberg and Maurice Hauriou. Malberg believed that there was only one type of decrees as general legal acts – the decrees for the execution of laws. According to his opinion, there are two scopes of execution: strict and broad and thus theoretically, in accordance to them, two types of execution decrees. If the head of the state, on his own initiative, or at the request of a legislative body, introduces supplementary regulations into state's legal system whose aim is to secure the execution of the law's provision and which are in line and complementary with these provisions, then we are speaking of the execution in a strict sense, that is *stricto sensu* execution. The execution in a broad sense, *lato sensu*, represents a legal situation when entirely new regulations are passed. According to Malberg, the legal grounds for passing a decree lie exclusively in the constitution. The power for passing decrees is exclusively in the hand of the head of the executive power. The mandate of the head of the state, at least in the sphere related to degree-passing power, is always reflected in the execution of laws. There are two options which a head of state may use for the execution of laws by means of decrees: through spontaneous passing of detailed provisions regulating the application of laws or through legislative authorization that includes the degree-passing sphere. In the latter option, the executive power can pass new laws, although it still remains in the sphere of their execution. “Such reasoning, however, led Carre de Malberg finally to conclude that decrees can be divided into two major groups: 1) spontaneous decrees (*reglements spontanes*), that is those decrees which a head of the executive power passes spontaneously and 2) decrees whose passing is ordered by a special legislative authorization (*reglements qui presupposent une habilitation legislative*)“ (M.Kamaric, 1957, p.83). In his theoretical structure, this author points to a single type of decrees: the decrees for the execution of laws. Yet, the concept of execution is defined in two senses, which are the antipodes, and as such are unacceptable because in one situation the execution is considered as a substantive concept reflected in the elaboration and concretization of legal provisions. In the second situation, the execution is interpreted in a formal sense, as an answer to the question who is formally authorized to pass decrees. This represents mixing of totally different concepts and terms and implies that there is no difference between the decrees passed to assist in the application of laws, whose purpose is a detailed elaboration of laws and legislative decrees, which are passed on the basis of a legislative authorization. Such approach was also favored by professor Krbek who criticized Malberg's stand. Krbek states:” The same expression is used for two totally different notions, once in a substantive sense, which means a detailed elaboration of legal provisions and the second time in a formal sense, which means a formal authorization that an executive organ may use to pass a decree. Thus, the execution in one sense means to elaborate a law by means of a decree, and in the second sense to pass a decree on the bases of a specially issued legislative authorization. Here we can argue for which of these two cases the execution is a more adequate expression, however, it is absolutely impermissible to use a common word for two totally distinct legal terms. Ideologically speaking, these are two completely different matters: in the first case we are looking into the decree's content, and in the second case we are asking a question who awards jurisdiction, that is authorization, to an administrative body to pass decrees. In the first case we are speaking about the decree that serves for the execution of law, which only further elaborates legislative idea, and in

the second case, we are talking about a legislative order which an administrative body can pass only on the basis of a special legislative authorization” (I. Krbek, 1939, p. 29).

Thus, according to Hauriou a decree can be characterized as manifestation of administrative will in the form of a general written rule, issued by a body that possesses a decree passing power. As for a formal concept of a decree, in theory, all acts of the state can be qualified on the basis of the fact which body passed them. “If we start from this criterion that represents the only legal basis according to which one can explain every single act, then laws should be viewed as legislative acts passed by legislative bodies and decrees as executive acts passed by executive bodies on the basis of their decree passing power, which is subordinate to a higher power of legislative bodies. Laws and decrees, therefore, can be considered only in a formal sense and thus the difference between law and decree cannot be made on substantive, but strictly on formal basis” (M. Kamaric, 1957, p. 49-50). However, we believe that it is wrong to look at the decree and define it only from the substantive point of view or, on the other hand, to formulate just the formal concept of a decree. We are closer to accept the views which Paul Laband presented in German legal science. If it is possible to formulate a substantive concept of law along with its formal characteristics, it is also possible to formulate a substantive and formal concept of decree – a cumulative concept. The substantive concept of decree stands in opposition to the substantive concept of law. The decree’s norm should be different from the law’s norm and its creation is the result of the activities of the government as a central organ of the executive power. “History, however, has taught us that the boundaries between the fields of law and decree are not fixed, moreover, that they are not even clearly established. Yet, in the original and substantive sense, the difference between law and decree is the same, according to Laband, as the difference that exists between law and decree provisions. Decree does not create law, but its scope extends within the boundaries set by law” (P. Dimitrijevic and R. Markovic, 1986, p. 292-293). The formal concept of decree, as already stated, is linked to the body which passed it and it does not correspond with the substantive concept of decree. According to this German theory, the substantive concept of decree corresponds to an act which contains an administrative regulation. However, legislative bodies can also pass the acts which include administrative regulations and, therefore, there is no overlapping of formal and substantive concepts of decree. This is just a form of discord which resulted in the division of decrees into legislative and administrative. The administrative decree, as Ivo Krbek noted: “is not related to citizens and does not penetrate their legal sphere, but only imposes internal regulations to authorities, giving instructions for internal functioning of administrative bodies or even establishing regulations for functioning of various state institutions (*Anstaltsordnungen*, for example, sets regulations related to schools and public libraries) thus affecting the individuals who are in immediate contact with these institutions” (I. Krbek, 1929, p.117). Similar opinion can be found with Slobodan Jovanovic, who also states that administrative decrees are issued by administrative bodies and that their execution “is not in the hand of citizens; for citizens administrative decrees do not represent orders in the strict sense of the word. They only have indirect effects on citizens – only if they come in touch with administrative bodies which work according to these decrees. Since the administrative decrees do not bind citizens, they do not need to be publicly announced as laws: it is enough if they are sent to the bodies which operate according to them. Decrees are issued by the head of the

administrative power, monarch or president of the republic, but they can also be passed by other high administrative bodies, such as, for example, ministers. Generally speaking, it is considered that within an administrative sector higher administrative bodies can issue decrees to lower administrative organs. “(S. Jovanovic, 1990, p.203). This means that within the scope of legally constituted principles administrative decrees are used for establishing special decrees for regulating certain issues and giving instructions which are of less importance than legislative instructions. Legislative decrees are, by nature, laws in a substantive sense and, therefore, they have to be within legislatively established boundaries since they represent a form of subsidiary legislation. This type of decrees regulates individuals’ private domain and enriches and modifies state’s legal system. Yet, we cannot speak about generally accepted division into legislative and administrative decrees. Our renowned constitutionalist, Jovan Stefanovic, believed that we should not be making distinction between general legal acts, which are related to citizens’ rights and duties and those related to the organizational apparatus of state administration and its functioning, that is between legislative and administrative decrees in such a way to allow legislative decrees to have substantive character and to deny such a character to administrative decrees. “Therefore, it is necessary to reject distinction between, so called legislative and administrative decrees, that is between the decrees which regulate the rights and duties of individuals and those that regulate the functioning of administrative bodies, since both former and latter create law” (J. Stefanović, 1950, p.445). Our belief is that there is a place for the formulation of both administrative and legislative decrees and that administrative decrees are the decrees for the execution of laws, that is for their supplementing. The execution of laws means their concretization and application. On one hand, the decrees for the execution of laws represent such regulations which elaborate legal rules, but on the other hand, these decrees represent instructions to state bodies which are bound to accept them and work according to them while executing legal regulations. In the first case, the decrees for the execution of laws comprise legislative rules and represent laws in a substantive sense. In the second case, they include administrative regulations and have nothing in common with legislative regulations. According to Laband, the concept of decree includes its substantive and formal characteristics which would, accordingly, mean that a decree is an act which contains administrative provisions passed by an administrative body “(P. Laband, 1901, p. 379).

For our perception of executive power, it is important to mention the following theoretical views on decrees: first, we would like to point to the decree theory which views it as a collection of details; the second theory views a decree as a means for the execution of laws; the third theory is based on the opinion that a decree is an expression of initial and authoritative decree-passing power. French theoretical minds invented a theory that decree is a collection of details. This legal conceptual formulation is based on the opinion that a decree represents a collection of details and that law is a legislative regulation, based on principles and therefore, it is an expression of principles. “The clear formulation of the concept of a decree as a collection of details was given a long time ago by Portalis. In his famous speech related to the draft of the *Code Civil*, he reasoned that legislative regulations differed from standard decrees in the way that laws should comprise basic rules on each matter, while the details related to the execution, provisional and auxiliary measures and matters of temporary or changeable significance belong to

decrees. Later on, the same idea was shared by many authors of both administrative and civil law.” (M. Kamaric, 1957, p. 52). The theory which views decree as a collection of details can be the subject of criticism, since a law, particularly the domain of civil law, can foresee detailed regulations, while a decree includes principles, of course, always in line with the existing laws. It should be taken into consideration that every act which prescribes regulations is based on certain principles. Therefore, it is easy to comprehend the relevance of the division which insists on the principles as a distinguished characteristic of law, that is on the elaboration of social relations, which would be, according to this view, the exclusive characteristic of a decree. The other view, a theory of decree as a means for the execution of laws is based on the belief that the decree-passing power is directly linked to the executive power. According to this view, which is particularly indicative for French legal theory, the executive power cannot perform successfully the mission of executing laws unless subsidiary laws are passed which demand their execution. “Thus, according to this theory, a decree is the instrument of the executive power for the execution of laws” (M. Kamaric, 1957, p. 53). In French legal theory, interpreting article 3 of French Constitutional laws, Carre de Malberg viewed the executive power as a constitutional subject which is subordinate to legislative power and exclusively focused on the execution of laws. This French legal theoretician formed this opinion on the basis of the mentioned article which foresees that it is the general duty of the head of the executive power to take care of the execution of laws and that, therefore, each decree must rely on the grounds for its passing, that is, on the law. Since a decree must be exclusively based on law and given the fact it represents an instrument for the execution of laws, Malberg, looking at the execution in a broader sense, came to the conclusion, that is to an interpretation, that a decree is not only restricted to the execution of exactly prescribed legal regulations, but also that it can serve as a means for passing of initial regulations, which lays the legal ground for unrestricted spreading of decree-passing power. The third theoretical view considers a decree as the emanation of original, generic and independent decree-passing power. This theory is the response to the theoretical stand that decree is the means for the execution of laws. Namely, the proponents of this theory, such as Hauriou and Moreau, believe that decree represents a manifestation of ruling of the head of the executive power. Ruling would not be possible unless the head of state, president of government or government itself passed decrees in the situations that were not legally regulated. “According to another opinion, particularly favored by Duguit, the head of the executive power is not only a subordinate executor of laws, but, together with a legislative body, represents a ruling factor, that is a body with the capacity to pass decrees spontaneously and on the basis of the title to rule. Thus, according to this theory, the decree-passing power is based on the power of the executive branch to rule, that is on the authority which is higher than the authority for mere execution of laws.” Theoretically speaking there are various categorizations of decrees. Thus, for example, as subsidiary laws, they can be divided into three categories. In this way a distinction is made between decrees 1) in relation to the legal grounds on which they are passed 2) in relation to their content 3) in relation to the bodies which passed them. Since constitution and law are two major legal acts of state, thus the grounds for passing decrees can be found in both constitution and law. “The Constitution is the act leading the legal order of a state which has the system of firm constitution” and, therefore, it is logical that there is a categorization of decrees based on constitutional

authorization. On the basis of this authorization, constitutional decrees can be passed, while special legislative authorization is needed to pass legislative decrees. “According to G. Jelinek, constitutional decrees (*verfassungsmässige Verordnungen*) are characterized by the fact that the body which passes them does not need any special law which would authorize this body to pass decrees, since such an authorization is already embodied in the constitution.” Constitutional decrees can be of two types: independent and non-independent. The degree-passing body uses independent decrees to regulate a certain matter, while non-independent decrees serve for the concretization of the provisions of a concrete law for the purpose of its application.” It can be said that non-independent decrees are accessory legal acts. They owe their legal life to a concrete law. If a law to which they are related ceases to exist, the non-independent decrees also cease to exist in a legal system. In our older legal history, decrees were called orders. The following was written about independent decrees: “An independent order also must be *secundum et intra legem*, but it is not determined by a special law - only restricted by it. Among independent constitutional orders, special place is given to the orders which were passed instead of laws (*gesetz-vertretende Verordnungen, les decrets – lois*).” Special type of independent decrees are those which temporarily substitute laws and last during the state of emergency. In Serbian theory of administrative law, Nevenka Bacanin pays much attention to legislative decrees and the criterion that she uses for such categorization of decrees is their link to laws. According to the opinion of this author, legislative decrees, similar to the constitutional decrees that we have already discussed, can be divided into independent and non-independent, within which further classification to classical and special can take place. This means that both independent and non-independent decrees can be classical and special. The decrees which are, for the purpose of regulating its subject matter, determined by law are non-independent decrees. The non-independent decrees serve for the execution of laws, they are subordinate to laws and prevailing in most legal systems. The fact that they serve for the execution of laws means that these subsidiary general legal acts of the executive power cannot be used for the regulation of social relations if these relations are not already regulated by law. “They are passed on the basis of the law and for the purpose of the execution of law by the concretization of its principles and provisions and it is irrelevant whether the decree-passing authorization is foreseen by a constitutional or legislative act. These are classical non-independent decrees. The exception comes in the form of non-independent decrees which, on the basis of legislative authorization, are used for changing, amending or replacing certain legal provisions which actually comprise this decree-passing authorization; they therefore, possess legislative power and instead of concretizing legal provisions, they actually serve to change, amend or replace them, which is at decree-passing body’s liberty to decide depending on the regulation of a concrete issue. However, they cannot be considered to be independent decrees since they are in a certain way linked to the concrete law. This decree - a special non-independent decree is restricted by a corresponding law and, therefore, it cannot be said to possess an original legislative content. Nevertheless, the issue of the constitutional grounds for this type of legislative delegation is significant from the theoretical and positive law point of view since it can be allowed, forbidden or even overlooked by the constitution” (N. Bacanin, 2011, p. 79). Although N. Bacanin made a classification of decrees on the basis of their link to the law, she indirectly accepts that it is also possible to classify decrees on the basis of the



constitutional grounds on which they are passed. Following the classification of legislative decrees to independent and non-independent, we would like to underline that independent decrees represent exception and deviation from the definition of a decree as an act for the execution of law since they regulate those issues, that is those fields of social life which are not the subject of legislative regulation. As it was the case with non-independent decrees, the independent, that is autonomous decrees can also be divided into classical autonomous decrees and special autonomous decrees. Classical autonomous decrees are those which regulate certain issues outside the legislative sphere, that is the issues whose subject matter is not of legislative nature. Special autonomous decrees, unlike classical ones, are passed to regulate those fields which include legislative matter and they are passed instead of laws. In order to pass these decrees, the decree-passing power does not need a legislative act and these decrees are not used to concretize a legislative norm. Instead, for passing these decrees, a decree-passing body needs to have grounds in the highest general legal act – the constitution. In his classification of decrees, Miodrag Jovicic, establishes a difference on the basis of the relation between a decree and general legal acts of higher significance – constitution and laws. Decrees for the execution of laws are passed “on the basis of the explicit legislative authorization, that is an order. That type of decree, as the initial type in the development of decrees, is the only type that entirely corresponds to the original concept of decree as a legal act, which is, if necessary, used for concretizing the legislative provisions that could not be adequately applied since they were not enough precise and concrete” (M. Jovicic, 2006, p. 383-384). Jovicic further distinguishes the decrees for the execution of laws passed on the basis of general constitutional authorization. They are called spontaneous decrees and are the result of strengthening of the position of the executive power. Within this type of decrees, a distinction can be made between two subtypes. The first subtype of decrees appeared as a result of the need to introduce a certain law into legal life and to apply it. However, the law did not give an authorization to the executive power to start the phase of its concretization elaboration, and the executive power did it spontaneously. When the executive power uses decrees of this subtype to elaborate legal provisions, it remains exclusively linked to this law and acts within its boundaries. The second subtype of spontaneous decrees, according to Jovicic, are the decrees, which are passed under the constitutional jurisdiction of the executive power. In this case, the executive power has the authorization to apply the existing legislation whenever it feels it is necessary. These provisions regulate social relations initially, that is from the beginning, which is the characteristic of a law and is in contrast to the decrees which are passed for the application of a certain law where the social relations are regulated in a derivative way. Decrees with the power of a law belong to the third type of decrees classified on the basis of the relation between the decree and general legal acts of higher significance. They are passed either on the basis of the authorization given to the executive power by the constitution - to pass these decrees under certain conditions or by a legislative decision. In the latter case, a parliament can transfer, even without a constitutional authorization, a part of its normative function to the executive power. “The difference is in the legitimization of the executive power to pass decrees with legislative force (in the first case, it is in accordance with the constitution, while in the second case it appears in the form of the delegation of powers for which a parliament is not constitutionally entitled according to the prevailing theoretical opinion); the common

link is that the decrees of this type are used not only for the spontaneous, but also for the initial and generic regulation, as well as for the derogation of legal provisions” (M. Jovicic 2006, p. 385). There are two ways to suspend certain legislative regulations - either to change the content of the law or the law temporarily becomes invalid and is replaced by such a decree. Thus, an equality sign can be placed between this type of decree and law. These decrees are, however, in opposition to law - they are neither *secundum legem* nor *contra legem*. Their legal nature is such that they represent *sui generis* category of legal regulations.

Bearing in mind this characteristic of decrees with legislative power, the question is raised how they are treated in various constitutions. The Constitution of French Fourth Republic (which preserved a parliamentary regime) in article 13 explicitly forbids the existence of such decrees: “The National Assembly has the exclusive right to pass laws. This right cannot be transferred.” The semi-presidential Constitution of Portugal uses an enumeration system to establish for which matters the legislative branch is responsible to pass laws, so called reserve legislative powers (article 167), and then explicitly allows the possibility of the existence of decrees with legislative power. Namely, “the Assembly of the Republic can authorize Government to pass decrees with legislative power for the matters which are in its exclusive jurisdiction, but first it must determine the subject matter and the scope of this authorization, as well as its duration, which can be extended. Legislative powers can be used only once, which does not dismiss the possibility of their partial execution. These powers cease to exist with the end of the Government which holds these powers, the expiration of Assembly’s mandate or with the dissolution of the Assembly” (article 168 of the Constitution of Portugal). The elaboration of this norm of Portuguese Constitution is given in the section of the Constitution which regulates the government responsibilities. Besides those responsibilities of political and administrative nature, the Government also has prerogative powers in legislative field. In performing its legislative function, the Government is entitled to pass decrees with legislative powers in the matters which are not reserved for the Assembly. Also, the Government is entitled to pass decrees with legislative powers in the matters which are reserved for the Assembly, provided it receives the authorization by the Assembly. “Without a special authorization, only on the bases of a general, *ex constitutione* authorization, the Government can pass decrees with legislative powers for the execution of principles or general concepts of legal regime which are included in corresponding laws. In addition, the Constitution authorizes the Council of Ministers (a smaller body than the Government) to pass decrees with legislative power which are needed for the immediate execution of the Government’s program. Finally, the Government is also authorized, and this is the only normative power the Government is regularly entitled to, “to pass regulations needed for the adequate execution of laws, that is the decrees for the execution of laws (in short, classical decrees)” (M. Jovicic, 1979, p. 10).

A distinction should be made between the mentioned decrees with legislative force and necessity (urgency) decrees. However, there are also some similarities between the decrees with the force of law and necessity decrees, such as that necessity decrees, upon the lapse of a certain period, that is the removal of the circumstances which caused the emergency situation in the country, are also submitted for the approval to a legislative organ and have the force of law. The difference is that, unlike the decrees with the force of law, necessity decrees “are passed in extremely difficult, emergency situations,

when the legislative branch of power cannot perform its activities” (D. Vranjanac and G. Dajovic, 2007, p. 140). The principal characteristic of these decrees is that they comprise new legal norms, which in standard circumstances, is the domain of constitution and legislation. Necessity decrees are passed by the executive branch of power in emergency situations: (war, imminent war), regardless the fact whether a situation has already been a subject of regulation. Their characteristic trait is temporariness. “Given the fact that the constitution maker and the legislator are excluded from the regulatory process, the legal effect of the decree is linked for the period in which constitution makers and the legislators are unable to act regularly, that is during the situation which required emergency regulation.” (S. Čiplić, 1996, p. 106). The existence of necessity decrees in a constitutional system represents a big risk for democracies and for citizens’ rights and liberties. In non-democratic regimes, in the sphere of constitutional and administrative law, necessity decrees are sometimes the equivalent, that is a synonym for the abuse of power at the expense of human rights. They survived the time of theoretical work of Boris Mirkin Getzevich and, as it has been said “Necessity decrees (*les ordonnances de nécessité*) were a constant practice in old Austria and infamous article 14 of the Austrian law was considered to be a weapon against people. In pseudo-constitutional regimes, necessity decrees always represented a means for royalty to stay in power at the expense of public interests” (M. Kamarić, 1957, p. 94-95). The best solution are those constitutional models of democratic regimes which regulate down to the smallest detail a large quantum of power which the executive branch receives in a state of emergency circumstances. Such a precise regulation of the executive powers during a state of emergency represents a dam preventing the abuse of existing powers. In this way, principally, the relationship between the key constitutional factors (legislative-executive) is not spoilt, although we find adequate to note the opinion of Slobodan Jovanovic “that growth of the executive authority during a state of emergency actually means the strengthening of executive powers towards the citizens and not towards the legislators.” (S. Jovanovic, 1934, p. 163).

### **Instead of conclusion - decrees in Serbian constitutional system**

Writing the Constitution of 2006, the legislator was modest in regulating the matters which fall within the scope of decrees. The decrees were mentioned in relation to the bodies responsible for their adoption, as well as to the purpose and circumstances for their passing. Those constitutional norms whose subject matter is of general nature, such as hierarchy, publishing, prohibition of retroactive effect of laws, as well as the control of constitutionality and legality are also indirectly related to decrees. The Law on Government, Law on State Administration and Rules of procedures of the Government also comprise some of the matters regulated by decrees.

In the constitutional system of Serbia, the Government as the central body of the executive power is the major decree-passing organ. There are some exceptions from this rule when the chief of state - the president of the Republic, and the head of parliament - the president of the National Assembly can appear as the decree-issuing subjects. The Government can autonomously use the constitutional authorization to pass decrees. It is used in regular procedures and circumstances to pass decrees for the purpose of

the execution of laws which does not need the approval of another body (article 123, parag. 1, line 3 of the Constitution). As for passing non-independent decrees, there are two situations that need to be distinguished. These are the situations of outstanding circumstances for the nation and the state. Namely, in the case of a state of emergency (article 200, parag. 6 of the Constitution), the Government needs a co-signature of the President of the state for passing the measures which provide derogation from human and minority rights. In the case of a state of war (which is a more serious case when the state, people and property are in danger), the Government needs the co-signatures of the President of the state and the President of the National Assembly for passing the measures which also provide derogation from human and minority rights (article 201, parag. 4 of the Constitution). The constitutional system recognizes three phases of the decree-passing procedure: preparation and submission of a draft decree, reviewing and approval of the draft decree and the third phase – decree’s signing, publishing and coming into effect (M. Pajvančić, 1995, p 139-140, 143-145).

In order to pass a decree, the Government, as an executive body, needs to have an explicit authorization based on law. These are, so called, executive decrees. Based on the decree, the Government “shall regulate in more detail a relationship governed by law, in accordance with the purpose and aim of the law“ (article 42 parag. 1 of the Law on Government). Delegated legislation, as well as autonomous decrees are the categories not known to the legal system of the Republic of Serbia. Since it is not authorized by the Constitution, the Government cannot pass, so called, autonomous decrees which originally and generically regulate social relations. Also, the National Assembly does not have a constitutional authorization to pass fully authorized laws (so called habilitation) that would allow the Government to pass decrees with the force of law. “ Obviously, the author of the Constitution, considered that the delegation of legislative powers to the Government would mean that the execution of peoples’ sovereignty would be passed from a representative body to a non-representative body” (R. Markovic, 2010, p. 342).

In a hierarchy of general legal acts in the constitutional system of the Republic of Serbia, decrees are subordinate to the Constitution, generally accepted international laws, ratified international agreements and laws, while they are superior to other subsidiary regulations and bylaws. Given the fact that decrees are the acts of inferior legal force compared to those ranked higher on this hierarchy, this means that they must be in accordance to the Constitution, generally accepted international laws, ratified international agreements and laws. The Constitutional Court can exercise control of decrees once they come into effect through, so called, abstract dispute concerning constitutionality. The Constitution does not foresee a legislative body’s control of the enforcement of decrees, except in the situation of a subsequent ratification of necessity decrees.

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## SERVICE DELIVERY: A MITIGATION MEASURE TO RESOLVING INTER-COMMUNAL CLEAVAGES

### Abstract

*The desire to eliminating inequality in society is a better measure in assessing leadership pattern as being functional or failed in relation to service delivery capability. Quality service delivery – educational, access road, potable/piped water supply, health facilities, and the likes - are mitigation measures in redressing intra and inter-communal cleavages while the absence of quality/passive service would continually aggravate tension/unrest among people who hitherto lived together as brothers for decades. The paper examined the role of genuine service delivery measure in mitigating inter and intra-communal cleavages exploring Nigeria's/ other third world nations experience. This paper is of the view that when you have a set of jokers as leaders and jokers as commentators on public discourse in society, the situation of the ordinary man in the street becomes much more precarious and more precarious where those entrusted with public funds/responsibilities celebrate failure and mindlessness rather than remorse openly for their ineptitude. The people must learn to understand the intrigues of the politicians whose stock in trade is trading on the interest and future of the people they claim to represent. This reorientation call becomes more imperative in view of the growing distance between the group known as the led and leaders in our society.*

**Key words:** Capabilities, Conflict, Power, Rivalry, Political Leadership

**JEL classification:** R11, R12, P48.

## ПРУЖАЊЕ УСЛУГЕ: МЕРЕ ЗА РЕШАВАЊЕ ИНТЕР КОМУНАЛНОГ ЈАЗА

### Апстракт

*Жеља да се елиминише неједнакост у друштву је боља мера у процени лидерског образаца као функционалног или неуспешног у односу на способност/могућност пружања услуга. Квалитетно пружање услуга (едукативне улоге, изградња приступних саобраћајница, снабдевање водом (изградња водовода), канализација, здравствене услуге и слично) су мере ублажавања (или решавања) интра и интер комуналног јаза, док одсуство квалитетне/пасивне услуге континуирано погоршава тензије /немире међу људима који су живели као браћа. У раду је испитивана улога стварне мере пружања услуга*

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*у облажавању интер и интра-комуналног јазу у Нигерији и другим земљама трећег света.*

**Кључне речи:** *способности, конфликт, моћ, надметање, политичко лидерство.*

## Introduction

The view of experts and world leaders including President Barack Obama of the United States of America is that for a nation to be great and progressive, what it needs is not a strong man as a leader, but strong and functional institutions (Songwe, 2015). These institutions regulate and direct the affairs of the people as well as meeting the basic needs of the people through adequate service delivery. Adequacy or lack of service delivery is a determining factor as to whether a government desires the people's fulfillment which is a prelude to peace and tranquility as well as propeller of society's progress.

Third World Nation's experience today, relates to how politicians in the name of 'leaders' perceive community progress. The urban elite politicians make effort in holding on to the control of the local community's affairs with the pretence that they are pursuing community's interest, whereas they are leveraging on the community's prospects for status sustenance and enhancement. In advancing self interest through self aggrandizement, they emphasize their passive effort towards community development as against actually meeting the community needs or advancing the course of the community (Omofonmwan & Odia, 2009).

In the absence of genuine development effort from the three tiers of government, different segments of community members innovatively in their own way come up with programmes, with the pretence of addressing community needs. These local innovations include formation of groups such as community youth associations, community development associations, landlords associations and the likes, with the purpose of engaging in levy collections from fellow community members and those having one form of transaction or the other to carry out in the community. The usual outcome of such innovations have been self enrichment, tussle for group leadership, intra group/inter group cleavages, violent/wanton destructions of lives and properties and so on. Hove, Ngwerume and Muchemwa, (2013) observed that service delivery must also incorporate infrastructure for transport, communication, and other essential utilities including the supply of electricity, water, and the disposal of sewage and other waste. On the social side, municipalities need to provide facilities for various levels of education and health services (Hove, Ngwerume & Muchemwa, 2013). While some services such as telecommunications and utilities may be more efficiently provided by private enterprises, social services in particular will continue to be the responsibility of public authorities.

This paper examines the pattern of leadership predominantly found in most Third World Nations and how such leadership have overtime retrogress communities and ethnic groups through their action and inaction and expected measures in addressing the very ugly trend.

## Service Delivery

Public office holders who have failed in the discharge of their assigned responsibilities and expectations usually make effort to seclude themselves from the people they represent. And sometimes make effort to convince the few that have access to them, that their inability to deliver in terms of service delivery is not ordinary and do ascribe same to possible supernatural causes. The people most times, run into more dilemma when those who during electioneering campaign claimed having solution to all the challenges in their domain suddenly turned complainers. They also ascribe their failure or inability to deliver to previous leaders, especially those in other political platforms. Others among these representatives in addition to excuses embark on what is referred to as secondary degree of cajoling with a perpetuation of falsehood that all would be well and punishment for those who make effort to say the truth.

Good governance is an essential ingredient needed in the course of service delivery to the people in any society and veritable tool in assuaging conflicts among disputants before same degenerates into crisis situation (Best, 2012).

Manda and Mwakudo (2013) while reviewing recent trends and outcomes in the education and health sectors in Sub-Saharan Africa, with a focus on the quality in service provision, observed low and ineffective spending on service delivery sectors as a symptom of the underlying institutional environment decay. The authors further argues that a microeconomic approach that explicitly takes political and bureaucratic incentives and constraints into account provides a fruitful, and complementary, way forward. Their findings reveal that innovations in the measurement of performance and ability in education and health open up ways to influence the political economic equilibrium (Manda & Mwakudo, 2013).

Ayinde and Miah noted that countries that have been able to efficiently allocate their scarce resources to the productivity efforts by virtue of their effective institutions are states with developed economies (Ayinde & Miah, 2008). In contrast, countries with weak institutions that encourage extensive unproductive rent seeking and other unethical behavior end up with economic backwardness. Drawing evidence from the developmental experiences of Bangladesh and Nigeria (and the failure therein), the authors seeks to juxtapose theory with reality with a view to contributing to the development discourse. They found that institutional constraints are the major impediments to sustained economic progress in both countries. Karl Mannheim (1952) cited in Kobiowu (2006) aimed at education as tool for the elimination of hostilities and conflicts, through shared experience and communal living. Sheer effort must be made possible to erase tribal problems, conflicts and sentiments from our education/political system (Odia, 2013).

Leading among the nation's dilemma is corruption. Suffice to say, that the meaning of corruption is evolving as well as taking different dimensions. One of the included attributes is the use of excessively acquired wealth through corrupt practices to acquire higher political power at all cost and subsequently leveraging on that influence to probe and fight/persecute political opponents who may not even be corrupt in the true sense of it. This they do with the conviction that such action will portray them as good and responsible in the eyes of the general public.

Among the determinants of a nation's productivity capacity prospects include; how developed are the educational system, amount of skills and competences in relation



to its population, amount of recognition given to the nation's professionals, quality of leadership/service delivery profile and encouragement/acceptance of local inventions and so on.

Properly educated and informed leaders will adhere to the tenets of human capital development theory, by ensuring that inequality, poverty, ignorance, disease, lack of capacity and so on are fought with vigor through education, socio-economic empowerment and functional leadership. Leaders who fails in this direction, usually do so with the intention that the more uninformed and underpowered people especially youths in society, the more people that would be available for use in advancing their inordinate ambitions – seeking and capturing power at all cost as well as attacks on perceived opponents – in neglect of productivity pursuit. This trend, if not addressed urgently would entrench a system that breeds legions of unproductive population leading to unproductive nation due to socio-economic incapacitation of the people by unproductive leaders (Baker, 2009; Nnaji, 2015).

Rural entrepreneurs are people with the understanding of the entrepreneurial dynamics in the rural areas which are mainly trading and processing of agricultural produce requiring the needed support and empowerment from government and development stakeholders in properly harnessing their potentials. Stemming from the incidences of failure in governance which hampers service delivery quest, deprived and innocent citizens and security operatives eventually become victims of the action and inaction of deceitful political leaders.

One consequence of escalating urban poverty is the growing number of street children in African cities. While some of these children have homes and families but survive by begging or casual work, many have been deserted or orphaned and have no alternative but to live on the street. Their survival is tremendously precarious, and, without schooling, they have little hope for any meaningful future and are extraordinarily vulnerable to abuse. For many, prostitution and crime are the only means to survive. In post-conflict countries street children are one of the most visible legacies of armed conflict. In particular, child soldiers, who are often alienated, traumatized and habituated into violence, present a daunting challenge (Rakisits, 2008).

The gap between demand and supply is widening in many cities. Existing facilities are poorly maintained, and investments in expanded service delivery are constrained by lack of financing. As a result, traffic congestion, inadequate public transport, crumbling roads, intermittent and unreliable electricity, poor telecommunications and insufficient water supply are becoming the norm rather than the exception, even in affluent areas of cities. In some cities, bribery has become commonplace as a means to forestall arbitrary interruption of utility services (Newsday , 2012).

In general, lack of adequate infrastructure ranks high among the most basic impediments to economic growth in most Sub-Saharan African countries (United Nations, 2004). In an increasingly scientific and knowledge-based world, businesses in Sub-Saharan Africa are disadvantaged by the fact that, with the exception of South Africa, the region has the world's least developed information and communications infrastructure. However, poor infrastructure in cities affects the economic performance of the private sector as well as the living conditions of citizens. The increase of slums means that hundreds of thousands of people live in appalling housing structures and without facilities like sewerage, electricity, water or paved roads (World Bank, 2005). For example, in

Harare the influx of people exerted mounting pressure on the Harare Municipality for the supply of amenities such as housing, clinics, transport, health facilities and water and sewage infrastructure. The shortage of housing compelled impoverished urban arrivals to construct illegal shelters leading to increasing shanty dwellings in the city (Colquhoun, 1993). Thus, Zimbabwe's capital city has joined the growing list of cities and 'mega cities' of the global south, which are confronted by an ever-growing crisis of deficient provision of basic services (Musemwa 2010). Emblematic of these challenges are other cities such as Lagos, Nairobi, Kumasi, Maputo and Luanda, amongst others. The continuance of rural habits by large numbers of people unaccustomed to living in an urban environment, together with lack of maintenance, has further contributed to the decay of physical infrastructure in cities. This has undermined overall human security and the attainment of sustainable development (Hove, Ngwerume & Muchemwa, 2013).

High rates of unemployment and limited economic opportunities have created a potentially explosive social problem in many African cities, especially given the particularly high levels of youth unemployment (Eguavoen, 2010). As a consequence, generating economic growth and employment have become development imperatives for urban areas throughout the continent. To accomplish this will require significant expansion of the formal private sector, which remains underdeveloped in most African countries. It will also require the encouragement and facilitation of much higher levels of private investment. In the long run, countries cannot compete internationally on the basis of a largely informal economy.

### **Inter-communal Cleavages**

It could be thus said that the unabating rivalry and tension between the Itsekiris on the one hand, and the Ijaws and Urhobos on the other, which seem to dominate the politics of the region over the years, has a lot to do with the imposition of British colonial rule. It fostered antagonistic relationship between the three ethnic groups as each tried to undo the other in the process of adjusting to the new political and social order in which they found themselves. The decision to group these hitherto interdependent ethnic groups together under Warri province, in which the Isekiris occupied a position of dominance, was bound to invite the adverse reaction of the other two ethnic groups (Imobighe, 2008).

In specific terms, the rapid and relatively extreme breakdown in the structure of social system of a number of Africa States associated with domestic insecurity results directly from an extraordinary complex mix of "underdevelopment and poverty and distributive justice" (Ayoob, 1986). The structural roots of these malignant social conditions (to use Morton Deutsch's category) resides invariably in three major contradictions in the social system of African societies (Alavi, 1983; Sandbrook, 1985). One such contradiction relates to the history and nature of state formation in Africa as compared for instance, to its counterpart in Europe. Another contradiction derives from the "pattern of elite recruitment and regime establishment and maintenance". The implication for peace and security of these factors can be seen in the crisis of regime legitimacy which befell many African Countries in the last three decades. The dynamics of this crisis are primarily anchored to a third contradiction: relations of exploitation, domestic class structures, prostrate external dependence and the nature of the client post

–colonial states that these class structures have developed, also operate to intensify the crisis (Onimode, 1988; Bassey, 2008).

As C.R. Mitchell puts it: conflict is inevitable because it can originate in individual and group reactions to situation of scarce resources; to division of function within society; and to differentiation of power and resultant competition for limited supplies of goods, status, valued roles and power-as-an-end itself (Bassey, 2008).

Susan Randell and Herman Strasser common to all conflict theoretical approaches is that they explain change in terms of antagonism or tension-producing elements that are inherent in social systems. The causes of such conflicts of the social structure which, on the one hand, are related to the establishment and sanctioning of social norms and, on the other hand, to the control and allocation of scarce resources such as income, property, influence and authority (Bassey, 2008).

As Morton Deustch trenchantly notes: if one wants to create the conditions for a destructive process of conflict resolution, one would introduce into the conflict the typical characteristics and effects of a competitive process: poor communication, coercive tactics; suspicion; the perception of basic difference in values; an orientation to increasing power differences; challenges to the legitimacy of the parties and so forth. On the other hand, if one wants to create the conditions for a constructive process of conflict resolution, one would introduce into the conflict the typical effects of a co-operative process: good communication; in the perception of similarity in beliefs and values; full acceptance of one another's legitimacy; problem centred negotiation; mutual trust and confidence; information-sharing and so forth (Bassey, 2008).

At the bottom of the Jos conflict in Nigeria is the competition for political control as well as the issue of indigeneship. The competition and conflict springs from who is an indigene and who is not, and the rights and privileges derivable from an indigene. Thus, indigeneship is not a mere status but a status that begets specific political, economic and psychological benefits (Best, 2007, p.5.). Ali and Imai study reveals that crises are associated with growth collapse in Africa. The authors added that in contrast, openness is found to be beneficial to growth and mitigate the adverse effects of crises (Ali & Imai, 2015).

Politicians in the course of seeking political office, adopts all sorts of gimmicks to cajoling the people and sometimes resort to the use of incendiary/odious statements while undermining the possible consequences of such statements (Ofuani,2012; Nnaji,2015).

## **Institutions and Service Delivery**

The quality of services delivered is an important determinant of people's well-being for a given bundle of resources. Resources are critical to the delivery of services to clients. But resources are just only one, and sometimes a small component, of the performance factors that impact on the quality of service provision. Recent evidence shows that even when resources are allocated for provision of services, a large portion of the resources might not reach the intended clients. In some cases, services may not even be provided because frontline providers do not show up to work, resulting in poor delivery of services. The implication is that availability of resources does not guarantee that intended beneficiaries do in fact receive the benefits from the resources allocated

(Manda & Mwakudo, 2013). The authors, where of the view that this situation explains the often observed result of weak relationship between for example, health expenditures and health outcomes in developing countries. In fact there are cases for which increased expenditures have been associated with decrease in health and other indicators of well-being. Such outcomes reflect weaknesses in the internal efficiency of the delivery mechanisms. Simply, budgetary allocation for a particular service may be only weakly related to what is delivered to clients. Among the factors orchestrating poor productivity in Nigeria according to Odia include; influence of poverty precipitating inability to meet the cost of schooling, the growing notion base on some degree of realities on ground, that life goals such as power/wealth could be acquired through any possible means with or without education (Odia, 2013). The author added that the quest for productivity might remain precarious for sometime should the existing scenario where majority of those graduating from the nation's tertiary institutions/inventors are continually allowed to roam the streets while those with little or no skill/competence heads/direct the affairs in the various sectors noting that the functioning capability of institutions cannot be separated from the quality and competences of societal leadership.

The quality of service delivery is dependent on resource constraints--both financial and human. Provision of services requires tangible financial resources, and, given that many developing countries face severe resource constraints, quality of provision is likely to be poorer in these countries relative to more economically advanced countries. This is because the technology of delivery and the quality of service infrastructure is likely to vary across countries with different levels of income. Likewise, human resources in terms of knowhow and organizational capacity are an important determinant of service delivery. To the extent that these resources are relatively scarce in poor countries, then service delivery can also be expected to be considerably poorer (Manda & Mwakudo, 2013). The authors added that while both human and financial resources are crucial determinants of service delivery, availability of resources does not guarantee efficient delivery. Institutions and institutional arrangements appear to be very important determinants of service delivery. The quality of institutions for service delivery can, therefore, be evaluated on the degree to which they promote accountability within the service delivery chain. Thus, linking institutions to service delivery requires a clear understanding of the factors that impact on service delivery and how those factors vary across institutions (Nkwe, 2012).

The civil service has prominent roles to play in service delivery. The development achieved in many countries of the world has been due to the ability of their civil service to effectively translate the policies of their political leaders into concrete services (Faseluka, 2015).

A properly functioning public service is indispensable to good governance, institutional capacity building, and private sector development. SERVICOM policy must be sustained, alongside other related initiatives, until Nigerian public life is truly transformed (Ogunrin & Erhijakpor, 2009).

Agunyal added that effective dispensation of these responsibilities depends largely on the capability, knowledge and expertise of the existing institutional actors and structure (Agunyal, 2015). Nevertheless, service delivery at the local level of governance in Nigeria is highly deficient because of the low capacity of staff. The added that studies have shown that there is a close link between staff development, capacity building and

efficient service delivery. Thus, the need for enhanced training and retraining through further studies, seminars, conferences, workshops, symposiums, and so on (Michael, 2009).

## Theoretical Framework

The theories found suitable for the analysis of service delivery: a mitigation measure to resolving inter-communal cleavages is the system theory of good governance. Good governance relies on instruments of governance that nurtures and strategically utilizes the self-governing potential of civil society under the strategic supervision of public authorities, seen in such diverse areas as employment policy, police power and crime prevention, health policy and biopolitics, employment policy, educational policy, accounting practices etc. (Bang & Esmark, 2013). The authors add that to avoid initial confusion: the notion of good governance does not refer to a scientific theory of governance or governance as a research program. Good governance refers to an empirically observable politico-administrative way of making public policy-making, reforming and organizing. There are countless applications of the concept of governance, as has been noted by several observers (Rhodes & Jessop, 2015), leading others to question the theoretical value of the concept (Bang & Esmark, 2013). Moreover, the many applications of the governance concept oscillate between scientific and practical applications, between research programs and policies, between observation and the object of observation itself (Jessop 2012, Meuleman 2008). Indeed, governance theory is often part and parcel of the strategy of good governance rather than an external observation (Easton & Dennis, 1973; Easton, 1990).

Good governance involves particular stances and notions about the organizational reform of the public sector. As such, good governance covers three basic politico-administrative domains: public governance, policy and organization. Good governance strategies are diverse, but they share a common language of problematization, including possible solutions. On this level then, good governance amounts to a *strategy of mobilization*. This strategy involves, on the one hand, a call for flexible integration of various forms of knowledge, expertise and resources to tackle complex or ‘wicked’ policy problems and provide sufficient innovation and ownership of solutions, and, on the other hand, an appropriation of democratic vocabulary in terms of inclusion, accountability and participation (Bang & Esmark, 2013).

For one, good governance is not restricted to the political domain in the narrow sense. Although the authors focus on good governance as politico-administrative strategy, i.e. as a question of public governance, the majority of its instruments and techniques are an emulation of business, science, family etc. and their various rationalities. Second, although there are clearly semantics of good governance centered around concepts such as ‘competition’, ‘performance’, ‘quality’ and ‘innovation’, this semantic complex is neither coherent in itself, nor is it necessarily comprehensive in relation to good governance on the levels of strategy and techniques. Attractive as the idea may seem, strategies and techniques do not converge towards a common reference point on the level of rationalities. And vice versa: we cannot think of the strategies as being simply derived from rationalities and of techniques as the implementation of strategies. Rather,

good governance emerges only as the partial coupling of certain techniques, strategies and rationalities (Bang & Esmark, 2013).

Essentially, a function system is nothing but the innumerable past and present communicative events and processes relying on a particular symbolically generalized medium, aided by other communication structures such technological mediums of diffusion, specialized discourse and language etc. Symbolically generalized mediums include power in the case of the political system (Luhmann 1997; 2000c, pp.18), the medium of law in the legal system (2004, pp. 173), money in the economic system (1988, pp. 213), truth in the scientific system (1990, pp. 308), love in the case of the family (1986, pp.18) etc. As Luhmann states, ‘the most successful and relevant communication in current society is premised on such mediums, and consequently the formation of social systems are directed towards the corresponding functions’ (Luhmann, 1984, p. 222). The combined dynamic of increasing territorial inclusivity and communicative exclusivity of function systems adds up to a completely differentiated world society without recourse to any meta-principle capable of ensuring integration between or beyond the communicative rationality of function systems and their constitutive mediums (Easton, 1965).

It is an established fact that good governance precipitate effective and genuine service delivery in any society through informed and committed leadership and strong institutions thereby mitigating incidences emanating from ill feelings resulting from lacks and deprivations. Those at the helm of affairs must henceforth act differently with the view of jettisoning the already mounted tension due to a long time of abandonment of the people and their plight by leaders. Preceding steps leading to the desired change are well captured in the 12 principles for good governance as enunciated by Council of Europe (2014) include i. Fair conduct of elections, Representation and participation ii., Responsiveness, iii., Efficiency and Effectiveness iv., Openness and Transparency v., Rule of law vi., Ethnical conduct vii., competence and capacity viii., Innovation and openness to change ix., Sustainability and long term orientation x., Sound financial management xi., Human rights, cultural diversity and social cohesion xii., Accountability.

The summation of Barack Obama, succinctly espoused in clear and practical terms, the desired strategies needed in assuaging the socio-economic debilities occasioned by poor/lack of service delivery to the people with his remarks: “In the 21<sup>st</sup> century, capable, reliable and transparent institutions are the key to success-strong parliaments; honest police force; independent judges....an independent press; a vibrant private sector; a *virile* civil society. Those are the things that give life to democracy, because that is what matters in people’s everyday lives” (Woodward, 2009; Baker,2009).

## Methodology

The study focused on service delivery, as a mitigation measure to resolving inter-communal cleavages. A very volatile region in one of the six geopolitical zones (the Niger- Delta region) in Nigeria was studied. The Niger-Delta region of Nigeria, consist of nine states: Ondo, Edo, Delta, Bayelsa, Rivers, Cross Rivers, Akwa Ibom, Imo and Abia state. Four communities were sampled from each of the nine states and ten respondents were administered questionnaires in each community. The respondents in each community consist of five head of household, two women and three youth leaders.

A total of 360 respondents were administered questionnaires in the study area. A five (5) point Likert Scale Format questionnaire with some added open end questions were used in eliciting the desired responses. In-depth interviews (IDI) and focus group discussions (FGD) were also conducted. Phi correlation coefficient statistical tool was used.

## Findings

Proposition testing

Service delivery does not assuage inter communal cleavages

1. By service delivery, is referring to capability of leaders in government in providing communities with basic needs.

2. By assuaging inter communal cleavages, is referring to measures put in place to remedy or preventing conflict among communities and their neighbours.

3. By perception, is referring to “Yes and No”.

To test the proposition, phi – correlation coefficient is used.

(see Table 1)

(see Table 2)

(see Table 3)

Phi –correlation coefficient is used.

Phi correlation

Denoted by  $\phi$  or  $\Phi$

The formula for  $\phi$  =

$$\phi = \frac{ad - bc}{\sqrt{(a + b)(c + d)(a + c)(b + d)}}$$

$$\phi = \frac{440(250) - 280(473)}{\sqrt{(720)(723)(913)(530)}}$$

$$\phi = \frac{110000 - 132440}{\sqrt{(520560)(483890)}}$$

$$\phi = \frac{-22440}{501890}$$

$$\phi = \frac{-22440}{501890}$$

$$r \phi = -0.045$$

$$r^2 \phi$$

## Interpretation

From the phi correlation result which shows that  $\phi = 0.045$ , implies that the relationship between service delivery effort as a mitigation measure in resolving inter-communal cleavages is very very low in the study area.

Therefore, the study would reject the propositions which say that service delivery does not assuage inter-communal cleavages and accept the propositions that service delivery is a mitigation measure in resolving inter-communal cleavages.

Furthermore, based on these findings, the study can conclude that the provision of social services to communities by government, donor agencies, corporate organizations etc are very low in the study area. Therefore, the study suggests that effort should be made by government, political office holders and other stakeholders to provide adequate social services (improved infrastructure/facilities, skills and financial empowerment and increased access to opportunities, etc) to dwellers in the study area as against the present trend in which the people are served more with falsehoods and reasons while they (political office holders) have failed to deliver.

## Discussion

The cause of absence of basic amenities/facilities in some communities are sometimes attributed to the influence of neighbouring communities who they believe would have physically or spiritually denied them of their wants. A community leader was observed to have said in one of the author's field survey that the low patronage of their community market, the dilapidated/poorly staffed secondary school and host of other basic essentials lacking in the community are believed to have be orchestrated by one of their neighbouring communities. He supported his claim with evidence of the fact that someone who recently confessed in the community of having the patronage of their facilities transferred/sold to the other community spiritually. Empirically speaking, teachers for instance are not employed in the spiritual realm to teach in schools neither are basic infrastructures especially those whose funds have been diverted or stolen after same being budgeted for and funds released. Overtime those in leadership positions concoct reasons why roads are not fixed, schools not having needed infrastructure/facilities, absence of piped potable water, quality/accessible health facilities, poor/inadequate housing, security, transportation, marketing facilities/incentives, communication, and so on. In addition, political leaders in government sometimes spend more money on advertorial/commissioning of projects when eventually executed. This usually creates a situation of ill feelings, deprivation, lacks, sense of exclusion/rejection among the people and the resultant effects of innate and overt struggle for access to any the services. These were the submissions of respondents and discussants in the study's in-depth interview and focus group discussion.

A community leader asserted that governance at the local level is not difficult for a leader who want to deliver and question the difficulty in earth road grading/maintenance, primary health care facilities, but some of them would prefer to steal and share available public funds among cohorts and their election sponsors even when they openly advocates absence of “godfathers”. According to Michael (2009) it is noted among others that electoral fraud is a consequence of low level of development



of productive forces, which in itself, is reinforced by the existence of insipient social atomization; as well as the persistence of mangled and distorted social relations of production.

The service delivery challenges permeate the various ties of governance in the country. The government cannot harness the potentials of rural dwellers, making them more productive to earn good income and improve the savings and investment capacity. These, coupled with a lack/poor services, ruralite are compelled to migrate in search of greener land, with or without a prerequisite competence to function properly and to earn good income that would enable them lead lives of dignity and fulfillment. The few urban centres' dwellers on the other hand, also battle to access the limited services available. A society desirous of genuine progress, pursue the issue of capacity and competences of citizens in carrying out their economic activities. With the conviction that the degree of proficiency in carrying out economic activities is a prelude to the level of productivity and level of income which tax is predicated upon (Songwe, 2015) .

## Conclusion

Government must address issues dispassionately and pragmatically by ensuring fairness, equity and justice in service delivery, participation and representations in governance. Government must abhor all forms of sectionalization in political, economic and social service delivery which do precipitate bigotry in form of religious and ethnic cleavages. In addition to these, is the scenario where some privileged and opportunistic few use religion and primordial sentiments in sustaining their selfish elitist role in society (through odious and incendiary statements) at the very detriment of the majority innocent and deprived people desirous of services and not sensationalism, gimmicks or innovations geared towards seat tight in office/ sponsorship of cohorts to succeed them.

This paper holds that enabling laws empowering the communities to seek redress or compel political office holders, to meet their constitutional and basic needs, should be put in place and enforced to the letter as well as enforcing laws that would hold political office holders/public servants accountable for their actions and inactions while in pursuit of their inordinate ambitions. This way, Third World communities would begin to heave a sigh of relief and build a high sense of belonging as well as develop the culture of tolerance and accommodation for all while eschewing all forms of bitterness, prejudices and stereotypes against any group. As this remain one sure way of ensuring harmonious living, collective/communal goal attainment and national progress.

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## TRANSFORMATION OF IVAN STOJANOVIĆ'S THOUGHT: BEFORE AND AFTER YUGOSLAVIAN AND SERBIAN TRANSITION

### Abstract

As the title of this paper implies, we will analyze transformation and evolution of Ivan Stojanović's thought. The goal will be to juxtapose his ideas and approaches before and after transition in Yugoslavia and Serbia. By (re)reading his books and papers, we came to conclusion that he underwent transformation in attitude towards market, state, socialism, capitalism, privatization, transition, financial markets, etc., along the lines of prevailing intellectual current of that times, but, due to his theoretical sophistication, he never became market fundamentalist.

**Key words:** Ivan Stojanović, market, state, transition, socialism, self-governed socialism, privatization, neoliberal model, market capitalisation.

*JEL classification:* B2, B24, P20.

## ТРАНСФОРМАЦИЈА МИСЛИ ИВАНА СТОЈАНОВИЋА: ПРЕ И ПОСЛЕ ЈУГОСЛОВЕНСКЕ И СРПСКЕ ТРАНЗИЦИЈЕ

### Апстракт

*Како назив овог рада имплицира, анализирамо трансформацију и еволуцију мисли Ивана Стојановића. Циљ ће бити успостављање његових идеја и приступа пре и после транзиције у Југославији и Србији. Читајући његове књиге и радове, дошли смо до закључка да је прешао у однос према тржишту, држави, социјализму, капитализму, приватизацији, транзицији, финансијским тржиштима итд. У складу са превладавајућом интелектуалном струјом тог времена, али, због своје теоријске софистицираности, никада није постао тржишни фундаменталиста.*

**Кључне речи:** *Иван Стојановић, тржиште, држава, транзиција, социјализам, самоуправни социјализам, приватизација, неолиберални модел, тржишна капитализација.*

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## Introduction

A significant part of the work of Ivan Stojanović focuses on the relationship between socialism and market. It can be said that the same topic represents the backbone of his interest. In all of his works, this topic appears to be decisive before the implosion of socialism. Stojanović practices his analytical and synthetic theoretical effects of the given problem. Accordingly, his important books are related to the analysis of complex and contradictory differences between socialism and market. Therefore, apart from other things, we should mention his comprehensive work *Socialism and the Market* (Stojanović, 1988), chrestomathy, with detailed comments, *Neomarxism and Economics* (Stojanović 1987), or we can include a critical book written in co-authorship: *Who connects workers with false ties* (Pavlović and Stojanović, 1984).

As we know, the issue of relation between socialism and the market is paradigmatically determined by the discussion of the “socialist calculation debate” that began in the 1920s and continued in the thirties. However, the critique of socialism has not begun with this discussion (e.g. the representative of German Historical School, Albert Schäffle, began the criticism much earlier), but the mentioned debate is considered to be even one of the most important in the history of economic theory. Different discussions were written about it, different assessments were made, so the discussion limits and the participants’ deficits were thematized (more recently, O’Neill 1996, Hodgson, 2016). It is not our intention here to evoke the sequences of the discussion, but we only plan to position Stojanović’s theoretical aspirations about socialism and the market.

## Stojanović’s Thought Before Serbian Transition

Is rational economic calculation possible in socialism? Is market socialism possible? What is the scope of rational administration in managing the economic flows? Can market mechanisms that coordinate decentralized economic activities be simulated in socialism? Is socialism the expression of an undeniable truth in management in relation to the effects of the market?

We mentioned some of the typical questions that arose in this debate. On the one hand, there are “leftist positivists” (Düppe) such as Oskar Lange who thematized socialism from the perspective of general equilibrium. On the other hand, there are Austrian economists, such as Ludwig von Mises or Friedrich Hayek, who expressed doubts about equilibrium as well as about any kind of social engineering. However, the socialist calculation debate should not be reduced to political-ideological conflicts. It is equally important to emphasize that another discussion was provoked, and it was a conflict over the scientificity of economic reflection. What guarantees the scientificity of economics? Austrian economists were the critics of formalism and deductive use of mathematics within the framework of economics. They believed that extended formalism prevented the possibility of articulating the processual reality of the market. Unlike them, those economists who tended to accept formal-mathematical procedures in the rationalization of economic management, like Lange did, developed another mode of economic reflection as Austrians who criticized every kind of scientism. Can the market be *instrumentalized*, can the market serve as a tool for non-market goals, for socialism? The point of discussion lies in this question.

The Austrians did not underestimate socialism. Their indication that the form of science *per se* directs the attention of an economic theoretician towards socialism (Hayek, 1949) is important for understanding the work of Stojanović. Moreover, it is suggested that socialism can satisfy intellectual needs more than liberalism (Düppe, 2011). If we consider the scope of Stojanović's works, his dispersive reception of different economic and non-economic theories, then we can confirm that he regards socialism as *an intellectual problem*. Stojanović's books show a wide range of interests; there is always analytical rigor and intellectual virtuosity, that is, the conceptual orientation that leads reflection in different directions and is ready to face the various dilemmas created by the relationship between socialism and the market. His profound knowledge reveals familiarity with numerous socialist and non-socialist economic theories, but he is ready to analyze economic problems in consideration of non-economic theories. If one scrutinizes his books and discussions carefully, s/he can form an impression of him as a theoretician who carefully, non-apologetically accepted non-Marxist reflections on the market and the criticisms of the same theories.

Stojanović accepted the socialist calculation debate. If we wish to interpret his position, then it can be said that in terms of the scientificity of economics, his opinion is between the Austrian rejection of deductive mathematics and left-positivist scientism. His economic discourse implies analytical results and readiness for the reception of mathematical procedures, which separates him from Austrian economists who, in terms of the design concept of the market, had a significant influence on economic discourse, but in terms of the methodological approach, that is, in terms of interpreting mathematics as a methodological instance, their opinions resulted in failure. The Formal Revolution in economics that took place after the World War II overthrew Austrian economists in the heterodox zone, or close to heterodox positions. At the same time, Stojanović is also separated from those economic theoreticians who are lost in mathematical procedures and who are satisfied with technical performances and absorb market issues into empirical laws. It is important to consider that he believes that *political economy*, that is, the systematic interaction between economics and politics, is inevitable. Stojanović acknowledges technical procedures as legitimate; he does not want to debate their merit, but in his works, they can be set in a broader political and economic context. We should examine the fact that many significant economists regarded certain economic techniques as instrumentally neutral, purified from political horizons: for example, Frank Knight believed that marginal techniques could be applied in both socialism and capitalism, that is, that the economic theory was neutral, Abba Lerner stated that socialism and liberalism would be merged within the framework of welfare economics (Boettke, 2000, 9). It is believed that economics without political elements, that is, as one significant economist said, economic discourse is “parsimonious” (Hirschman, 1984). Stojanović's acceptance of technical and analytical procedures is within his political orientation.

Let us not forget that Stojanović was not only a theoretician-professor, but also a participant in the activities of high political bodies in former Yugoslavia. His position influenced a constant reflection on the problems of theory and practice. Stojanović's work can also be explained based on the constant transition between theory and practice. This means that Stojanović was active during self-managing socialist Yugoslavia which differed from various modes of real-socialism. This implied openness to market coordination and criticism of state intervention which resulted in etatism. Following



quotation summarizes this stance: “...one of the fundamental problems of the socialist economy [is] the relation of socialism (self-managed socialism) to the laws of commodity (market) economy (Stojanović, 1988, p. 39).

Majority of theoreticians stated that there was a specific self-government-based mode of production with the following elements: a) social ownership, b) self-government, c) commodity-planning mediated base of economizing (Maksimović 1984, p.7). It was believed that it was possible to coordinate planning with the market, that the planning could be understood by taking into account the coordination and rationalization effects of the market (Horvat, 1984, 270). If we analyze the already mentioned book *Socialism and the Market*, we can see that one of the most important chapters focuses on the relationship between the plan and the market (Stojanović, 1988, p.477-574). However, the status of the market was not defined and was prone to different interpretations: numerous discussions on the meaning of the market in self-managed socialism were held, and economic theoreticians got involved in the arguments concerning the market range. It was believed that certain market models were a necessary part of self-managed socialism; it was well-known that “law of values” and “commodity production” were already present and they could not be eliminated by administrative measures. However, there was no consensus on what was the cause of survival of “commodity production” in socialism.

Many theoreticians approached the categories of socialist political-economy based on the normative reasoning: they analyzed the existing practice based on the planned desirable content of socialism. Stojanović actively participated in these discussions and took a sophisticated position based on accepted theories. His analyses were not characterized by normative projections, but by immanent analyses that had both macroeconomic and microeconomic aspects. He held his opinion about the analyses even in the second half of the 1980s of the 20th century when self-managed socialism had already deeply got into crisis and when an intensified crisis had already projected its final outcome. Stojanović draws our attention to the necessity of avoiding any simplification: unlike others who have only managed to explain the abstract conflict between the norms and reality, he performs the aforementioned analyses that indicate antinomy between the norms and reality. At the same time, he discusses about contradictions, about inevitable stabilization of socialism, although he always tends to combine the ideas of conceptual valuation. Therefore, we may sometimes read these statements based on the conceptual classification: “One of the most important Yugoslavian ideas in socialism is that the revolution is something else than a normal, peaceful life. Nowadays, taking into account the economic situation, we may have too much of a normal, peaceful life” (Pavlović and Stojanović, 1984, p. 15). It is not just a declarative statement. Unlike many theoreticians who believed that the problem of socialism was resolved based on the normative view, except that the example in practice was a bit late, Stojanović was much more cautious: the problem of socialism, especially the economic problem of socialism, was not resolved; there was no predetermined pattern to be achieved. Unlike those economic theoreticians who thought that the problem of socialism had been solved in advance, and it could be imposed normatively to the determined practice, Stojanović introduced the elements of non-determination. The existing self-managed socialism can only be the second best and it cannot be achieved if we apply the abstract normative principles.

With regard to the ultimate cause of commodity production in socialism, Stojanović seems to accept the explanation that it is the employment status which is regarded as a cause. In other words, the work does not appear to be primary need but a survival mean, which is contrary to different projections. This fact implies that the work sphere is determined by economic laws on the basis of compulsion to work. Stojanović's indications are critical of market fetishism, but his critical attitude towards those subjects who underestimate the importance of market decentralization becomes prevailing. It was stated that the Yugoslav society started following the wrong path after the Constitution enacted in 1974. The resulting paths prevented the introduction of rational mechanisms of the market, especially the price mechanisms that simultaneously homogenize different goods and realize their quantitative comparison. This way, the role of the price in the planned economy is thematized, and planned and mathematical prices, labor costs, regional differences in prices or “political costs” are analyzed. Price optimization is to be achieved, and mechanisms that comply the respective optimization with the capabilities of a self-managed economy are to be discovered. Stojanović draws attention to the structure of contemporary market, he writes about oligopolies and other organizational forms that he tends to confront with the flows of self-managed economy.

The starting point is clear: “In particular, the market is a mechanism which does not allow the dominance of the non-economic activities over the economic activities, the voluntarism over economic laws” (Stojanović 1988, 50). Stojanović tends to warn about the fact that shrinking market in Yugoslavia led to the hypertrophication of bureaucratic procedures (called “bureaucratic dogmatism”), intensification of the irrational administration: if there is no market, then it comes to “naturalization” of economy with the loss of motivation for rational economic activity. Stojanović strongly criticizes theoreticians who, with regard to humanism, are constantly suspicious of the market and cannot distinguish between “goods produced by labor” and “capital goods”. Humanists who are filled with fear for reification of people suddenly end up in the apotheosis of the state. He also criticizes economic theoreticians who do not want to admit that the means of production are not just “material conditions for production” but that they also have their value. Stojanović criticizes the fetishization of price negotiations and the agreements that are imposed by economic laws. He believes it was illusory of the former Yugoslavia to attempt to overcome the disintegrative tendencies that were rapidly increased in the 1980s through consensus of political wills. He criticizes illusions about “non-property” that were widespread in former Yugoslavia and claims that property cannot be purified from economic significance.

Therefore, Stojanović's position was not disputable: it supported those orientations according to which the market, in spite of the socialist tendencies, was a powerful regulator of economics which met the complex needs. If we consider the socialist calculation debate, we can say that in Stojanović's opinion, market has *simultaneously* instrumental and non-instrumental role. Its instrumental role is based on the fact that it can meet certain needs in the transitional period; its non-instrumental role is based on providing elements of democracy for socialism. There are connections between the market and democracy, which additionally gives legitimacy to the market. However, it should be noted that Stojanović was convinced that there was a “socialist commodity production” that could be compared to a capitalist counterpart. Not only does Stojanović use this term, but he also strives to recognize the possibility of “market socialism” through theoretical analyses - in this respect, he could have

different interlocutors in the group of economists who also advocated for market socialism. He emphasized that the market operated based on laws, but that planning with socialist goals could affect the failures of the market. Stojanović was well aware of the tensions between general planning and allocative market functions. Since the above mentioned socialist calculation debate, the question has been posed as to whether the successful planning is conditioned by having the knowledge of the conditions of efficient production (production possibilities curve) and preferences of consumption - some economists believe that the problem can be solved in a different and more efficient way by total computerization. If this were correct, then the debate could be open in the 21st century. Lange tried to achieve equilibrium based on the logic in Walras' *tâtonnement*; today, some authors anticipate possible computer algorithms in terms of price adjustment (Jablonowski, 2011, Dore, Kaser, 1984). Naturally, it is still to be analyzed; one possibility is that the same possibilities can be raised within the scope of expanding experimental economics. Stojanović was aware of the planning process as a whole, that is, a plan that had a macroeconomic range but, owing to self-management, it also had its decentralized form. He knew it was not simple to integrate the market into the planning mechanisms and it was clear that it was extremely difficult to integrate the market benefits into the proportions of the plan. However, he did not want to blur the distinction between “socialist commodity production” which goal was to increase the “social use value” and the capitalist commodity production which aim was to “exchange value”. He believed that the “law of value” had powerful effects only on the material sphere: in terms of labor, socialism should overcome determinations by commodity-based practices. Stojanović was clear about theoretical choices as well, namely, he also took sides in heated leftist discussions during the 1970s and 1980s. During this period, the attention of the economists was directed to the work of Piero Sraffa and some economists proposed Yugoslavian government to substitute Marx with Sraffa. Stojanović, however, (in the co-authorship) states that the difference lies between the aforementioned theoreticians in assessing the value of goods; Sraffa is focused on the assessment of values based on physical volumes and prices of production. Marx is more complex because he adds the law of value based on labor and opens up the ability to understand the capital as a unity of different determinations.

The crisis that arose in the Yugoslavian society in the 1980s did not make Stojanović change his attitude to the market and socialism, or there are at least no clear signs of it. At the end of the mentioned period, however, there was a collapse of socialism. This caused the change in the opinions of many economists. The market was regarded as a regulator without any competition (Stojanović, 1990), but, as we have already said, not with the Austrian logic of processuality.

## 1990s and Deviation from Socialism

Although even before the 1990s Ivan Stojanović was promarket oriented, in the 1990s, he significantly abandoned the ideas of socialism and turned to neoliberalism, in accordance with the general trends at the time.<sup>2</sup> In this regard, the following quote

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<sup>2</sup> An interesting look at neoliberalism was given by one of the most famous authors of the Post-Keynesian school of economic thought, Steve Keen. He both humorously and critically observed that neoliberalism is a introductory neoclassical economics disguised as a political philosophy (Keen,

is illustrative: “The dominant characteristic of progressive economies in the world is that they are primarily based on private property, the freedom to enter into contracts and establish other relationships among enterprises, and to reduce and change the role of the state in the economy. The basic pillar of market economy is private ownership of enterprises, in various aspects, from the individual ownership of individuals over small enterprises to large stock companies. The follow-up pillar is the maximization of profits, as the main of entrepreneurship goal before taking the most efficient resource allocator and regulator of economic processes. “ (Stojanović, 2000a).

The preceding quote, therefore, gives a typical neoliberal assessment of how the market in cooperation with private ownership guarantees economic growth and development, while the state should withdraw from the economy and let the economic entities freely contract and partake in economic transactions (the critique of this approach was given in: Lošonc and Perić, 2017). However, we can not lose sight of the historical context in which the previous quote originated. In the 1990s, the ideas of neoliberalism and neoclassical economics (neoclassical synthesis, to be more precise) were popular and they sounded “fresh” to many when the “over-indebted country” in the 1980s according to the criteria of international financial institutions (mostly IMF) ended up in war devastation and international sanctions in the 1990s. Neoliberalism became *ideology without ideology*, i.e. ideology disguised as objective, scientific, and technocratic practical policy making. We appear to accept the proposition that this utopian faith from 1980’s describes a neutral force; a kind of biological law, like Darwin’s theory of evolution. However, this philosophy arose as a conscious effort from capital aimed at shifting the locus of power from labour to capital. Simply, neoliberalism and its simple and “attractive” postulates were perceived as interesting at a time when the latter only began to impose their hegemony.<sup>3</sup> We live today in difficult but interesting times of the neoliberal economic model collapse. This model, among other things, is characterized by an affirmative view of the market and critical - not to say the suspicious - view on the state and its institutions. Such an approach has led to its radical outcome in the recommendations for economic policy pursued by the International Monetary Fund and the World Bank since the 1980s. They have imposed privatization, deindustrialization and promotion of the service sector, import dependence, compensation of stagnant and declining worker rentals by increased borrowing, reduction of workers’ rights and “relaxation” of labor legislation, credit dependence, etc. on “developing countries”.

With a group of contemporaries (of which the most significant representative was Zoran Pjanić), Stojanović belonged to the group of “profitaša” (group of socialist economists who considered profit legitimate goal in socialism), in contrast to “dohodaša” (who considered that self-managing socialism can not recognize profit and other capitalist institutions - only income). Despite emphasizing the advantages of a liberal economy, Stojanović was not a

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2017, p. 46). However, if we don’t wanna be misunderstood, we do not want to say that Stojanovic's analyzes are at the level of the basic neoclassical economy, on the contrary. Behind his attitudes and approaches there is a good theoretical foundation and professional background (see, for example: Stojanović, 1989). The failings that we will be criticizing hereunder may be attributed to the spirit of the 1990s and neoliberal hegemony, which certainly had a major impact on his work in that period.

<sup>3</sup> Instrumental in achieving this hegemony were neoliberal think tanks. Corporate-funded think tanks have played a central role in promoting free market philosophy onto the policy agenda throughout the world. They have consistently promoted deregulation, privatization, and pro-market reforms.

market fundamentalist in a sense that he felt that all activities should be subject to market logic, but also respected the virtues of the welfare economy. The following quote reinforces that angle: “Public goods (activities, services) generally (should) function on the basis of quasi market-based solutions, because market laws in these activities often do not provide optimal solutions from the standpoint of the interests of society and welfare economy as a whole. In health, culture, education, etc. supply and demand, as the most important market elements, can not be the main regulators of optimal or equilibrium volumes of production, consumption, prices. Under market conditions these optimums or equilibrium are achieved with the equality of marginal costs and prices (marginal revenues, depending on the competition or monopolization present in the markets). In the case of public goods, however, the stated equality only partially provides the optimum. Companies operating in the public goods sector are most often monopolistic. The market for public goods and services is a specific quasi-market: on the one hand, it provides centralized (monopoly) offer, on the other decentralized demand. Profitability in public sector enterprises does not have same role as in private, stock, cooperative, etc.” (Stojanović, 2000a)

If privatization is subject, Stojanović has an affirmative approach in analyzing this process. The following quotation confirms this: “One of the main questions raised about the process of (re) privatization is: why do these processes come, what are their causes? General arguments that favor privatization relate to: efficiency; economic freedom - democracy; reduction of the public (state) deficit; improvement of the means of negotiating and agreement between economic and other social subjects on various issues (economic, social, etc.).” (Stojanović, 2000b) Stojanovic sees privatization as a process that will lead to rise of democratic standards in society through the increase of economic freedom, and as the most progressive economic and political system he offers the so-called *people’s capitalism*. This means that ownership over the means of production should be widespread among the population and through the massive shareholding people will be motivated to save and invest rather than to consume.<sup>4</sup> To this approach we could address the following criticism: capitalism is based on exploitation, that is, it is the order which, in order to function, requires that most of population (workers) work for the minority (capitalist or employer). By applying the conception of people’s capitalism, the opportunity for this exploitation would be reduced, the equity stakes would be dispersed and thereby profitability of investments decreased, which ultimately could lead to a “capital strike” (pressure on cost reduction or even abandonment of investments) and endangering the capitalist order.

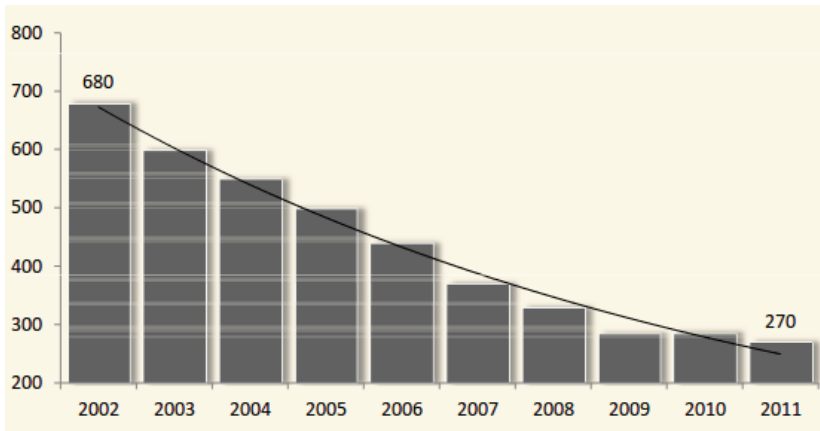
“Privatization raises overall economic efficiency, primarily because it eliminates the weaknesses of publicly owned enterprises and also the weaknesses of state interventionism. Namely, the decades-long experience, as the countries of the West and more of those in the East (with socialist socio-economic systems), proves that public property (state, social, “national,” nationalized) does not have, at least not sufficiently, incorporated bankruptcy risk (bankruptcy, collapse), precisely because of the state (at the expense of the budget) support to such companies. Likewise, the weakness of publicly owned enterprises is absence, lack of financial sanctions for

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<sup>4</sup> Radical neoliberal and market fundamentalists criticize people’s capitalism and often call it economic populism. The following quotation confirms this: “This [people’s capitalism and widespread shareholding] is an absurdity that retains the political power of the ones on the top, whose goal is only to acquire more stocks, which would be the Russian model of tycoonization, or to free itself and collapse, which would be a Serbian model (Popović, 2007).”

their bad business decisions, since in most cases these companies are not forced to acquire capital for their business in capital market. (Stojanović, 2000b) We do not need to emphasize that privatization did not bring the desired results both in the domain of increased economic efficiency and the macroeconomic growth and development of Serbia. Due to limited space, we will illustrate this only with decline in employment in enterprises that are privatized in the period from 2002 to 2011 (when the privatization process was the most intensive).

Graph 1. Number of employees in privatized companies in the period from 2002 to 2011 (in thousands)



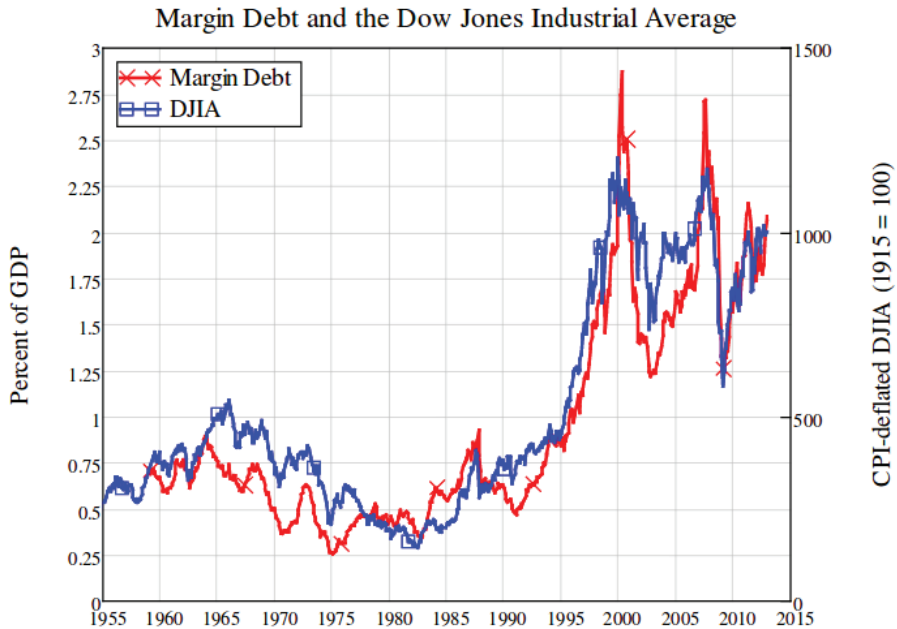
Source: Nikolić (2012).

We can see that the total number of employees in the observed period decreased by about 410,000, which means that on average about 45,000 jobs per year in the newly privatized companies disappeared. Also, the conducted research confirms that the privatized companies give a modest contribution to the creation of gross added value in Serbia, and privatization has met expectations only in certain areas of the processing industry (Nikolić, 2013). So, privatization has failed to fulfill the promises of the promarket ideologists (Mitrović, 2010).

Stojanović (1992, 1993) emphasized in the 1990s the advantages of market institutions such as financial markets (money markets, capital, foreign exchange and futures markets), stock exchanges and integrated markets (the market for goods, services, capital and labor). He argued that there would be no dynamic economic growth without developed financial markets, while he did not warn of the dangers posed by speculative capital and its instruments (such as financial derivatives, for example). His treatment of market capitalization (value of share capital) is particularly interesting. He argues that developing countries have achieved faster growth in market capitalization and that growth of the later is key factor for economic growth. However, there is also no criticism of the nature of such growth. Namely, the growth of market capitalization can be due to the so-called *paper entrepreneurship*; that is, mainly financial and accounting measures for raising the value of shares. The most common form is the purchase of company's own shares in the financial markets in order to increase demand and price for the shares. Also, one should not lose sight of the impact of speculative capital and the banking sectors expansive policy of

lending (the so-called *credit bubble*). The impact (and correlation) of loans and speculative capital on market capitalization can be seen in the following graphic.

Graph 2. Margin debt compared to the DJIA - correlation 0.945



Source: Keen (2013).

The later work of Stojanovic is also characterized by positive treatment of the so-called *structural changes* and transitional processes in the countries of Southeast Europe and the inevitability of the coexistence of both. “What is particularly important is that transition (from non-market to market-based forms of business) already, almost by definition, means and assumes large structural adjustments and changes in the economy. It is about a kind of so-called feedback loop - no transition (and what it is aimed for - raising the overall efficiency of the economy to a higher level, etc.) without structural changes in the economy, and *vice versa* - the real necessary structural changes in the economy without a transition (again, from non-market to market forms of business, or the creation of everything that means that the economy is really a market economy, and of all aforementioned, it is change of the ownership structure that is especially important).” (Stojanović, 2000b). Without going into the critique of transitional discourse, in the sense that it is resisting the present evaluation (because the results are always displaced into the future and that this process has no end), the transition in Serbia has brought the technological-economic lag for the most of the installed capacities, dominant position for traditional industrial production, a rather dispersive export assortment, which was, to a considerable extent, used to a significant degree in the past to a changing customer base and placed on a limited number of destinations, and this is an aggravating circumstance (Cvijanović, Mihajlović and Simonović, 2009). We can add to this the de-

industrialization, economic and social stratification of the population, import dependence, over-indebtedness, unfavorable economic structure, etc. (Perić and Lošonc, 2015).

If we look at the largest and privatization that has been proclaimed as one of the greatest successes of economic policy makers since 2000: *Sartid* by *US Steel Company*, it is not difficult to carry out the calculation. *Sartid* (including iron and steel, a new and old, a factory of white sheets, a rolling mill ...) canceled \$ 650 million of credit obligations (denominated in foreign currencies) and transferred it to the state. *Sartid* was sold for 26 million, which is more than a suspicious transaction, because in this process the state of Serbia has been damaged by more than 2.5 billion dollars. But, that is just the most famous case. An analysis of all countries that have begun transition processes since 1989 have shown that they have not reached the economic growth rates that have been promised and that the expected convergence with developed countries has not occurred (Becker et al., 2010).

## Conclusion

The purpose of this article was to give a brief overview of the work of Ivan Stojanovic before and after the beginning of transition changes in Serbia in the 1990s. The article did not intend to deal with all the topics of Stojanović's interest, because topics are many, and the article is limited. Also, we did not deal with the reception of Stojanović's work when it was created, but we analyzed and somewhat criticized those ideas in the context of the present situation when the “story of transition became stale”, that is, at a time when the promarket and neoliberal economic model did not bring promised results.

As we said, the crisis that affected Yugoslavia in the 1980s did not disrupt Stojanovic in terms of his approaches to market and socialism, but in the 1990s he partially “succumbed” to the neoliberal virus in terms of glorification of market institutions such as the financial market, structural neoliberal reforms, privatization and transition (capitalist restoration). In the article, we gave a brief critique of these attitudes, because we believe that the issues Stojanović was facing are still meaningful and current, but now we have the advantage of the past time in which these ideas have been shown in practice.

Regardless of neoliberal model shortcomings, we consider that even today, something can be learned from Stojanović's books and articles because the struggle between the economic left and right for discursive power continues today, with the fact that we have to notice that the left is withdrawing.

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## EMPIRICAL ANALYSIS OF VALUE ADDED TAX AND INFLATION RATE: TUCKEY'S HSD TEST IN SELECTED WESTERN BALKAN COUNTRIES

### Abstract

*In economic theory the price movement at a general level is one of the essential issues that can significantly affect on economic flows. The aim of this paper is to show that there is a significant difference in the average price level in the countries of the region, where the value added tax rates are analysed at the same time. The subject of the paper is manifested by the reflection of the inflation rate and value added tax rate in seven countries in the region from 2008 to 2016. Selected countries are Serbia, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Slovenia. Based on the graph, it was found that in the years when there was a growth of value added tax, the inflation rate was declined which means there is no positive impact of tax form on inflation ie. there is a reduction of the inflation rate. Also, bearing in mind fact that inflation rate is not primarily caused by the movement of value added tax rate, authors have focused on determining the difference between average inflation rate in observed countries. Using ANOVA and Tuckey's HSD test, it is determined a statistically significant difference between all countries in the group, while in the case of Serbia, it can notice there is a statistically significant difference between other countries in the region, except for Montenegro, where there is no statistical significance.*

**Key words:** inflation, value added tax, ANOVA, Tuckey's HSD test, Western Balkan

**JEL classification:** C01, E31, H2

## ЕМПИРИЈСКА АНАЛИЗА ПОРЕЗА НА ДОДАТУ ВРЕДНОСТ И СТОПЕ ИНФЛАЦИЈЕ: TUCKEY'S HSD ТЕСТ У ОДАБРАНИМ ЗЕМЉАМА ЗАПАДНОГ БАЛКАНА

### Апстракт

*У економској теорији кретање цена на општем нивоу представља једно од важних питања које могу значајно утицати на економске токове. Циљ овог рада је приказати да постоји значајна разлика у кретању просечног нивоа цена у земљама у региону, где су истовремено анализиране стопе пореза на додату вредност. Предмет рада је манифестован кроз приказ стопе инфлације и стопе*

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*пореза на додату вредност у седам земаља у региону од 2008 до 2016 године. Посматране земље су: Србија, Албанија, Босна и Херцеговина, Хрватска, Македонија, Црна Гора и Словенија. На основу графичких приказа утврђено је да у годинама када је дошло до раста стопе пореза на додату вредност, стопа инфлације је опадала, што подразумева да не постоји позитиван утицај пореског облика на инфлацију, тј. присутно је смањење стопе инфлације. Такође, уважавајући чињеницу да инфлација није примарно условљена кретањем пореза на додату вредност, аутори су се фокусирали на детерминисање разлика између просечне стопе инфлације у посматраним земљама. Користећи АНОВА и Tuckey's HSD тест, утврђено је да постоји статистички значајна разлика између свих земаља у групи, док је у случају Србије присутна статистички значајна разлика између осталих земаља у региону осим Црне Горе где није утврђена статистичка значајност.*

**Кључне речи:** инфлација, порез на додату вредност, АНОВА, Туцкеу'С ХСД тест, Западни Балкан

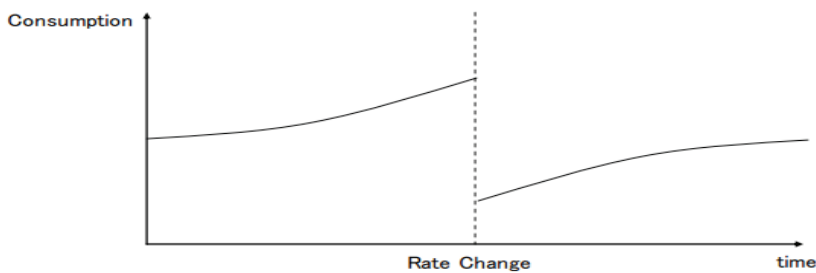
## 1. Introduction – Theoretical background

In modern government, taxes have an important place in their programs and they are a powerful tool for achieving main goals in the economy. Stojanović and Đorđević (2016) argue that taxes are the most essential public revenue of all modern states. Kalaš and Milenković (2017) point out that tax effects on economic activity is one of the main area of public finance. Grun (2000) defined a tax as mandatory statutory payment collected by the state, municipalities or other public entities for covering public needs while Karolak (2011) determined tax as a compulsory payment created by the government of a country from that main products and services are performed. Gatawa et al. (2016) determine the taxes as one of the most important revenue generation mechanisms in every economy. They are used to achieve economic growth and equity in income and wealth distribution, while on the other hand, their characteristics are reliability and predictability. The biggest share of the state budget revenues has taxes and their total share should be 50% to 80% (Mankiw et al. 2009). By definition of Netherlands Economic Institute (1998) value added presents the difference between the value of the production and the value of the goods and services which are used in the production, where VAT burden ultimately rests on the final consumers. It represents a form of consumption tax. From the buyer's perspective, it's a tax on the purchase price while from that of the seller, it's a tax only on the value added to a product or services (Sivasakkaravarthi and Ganesan 2011).

Aliyzadeh and Motallabi (2016) defined value added tax as a multistep tax obtained in different steps of importing, production and distribution based on the added value of the sold goods and delivered services. A value added tax is less distortionary than other tax forms (Auerbach 2008; Banks and Diamond 2010; Claus 2013). Inflation represents an important indicator in the economy and there are many determinants whose effect to her. Anbarci (2015) determined inflation tax as a phenomenon when prices increase and the real value of individual's money holdings decreases. When it looks taxes, value added tax presents the most used tax form which can have an impact on inflation. There are many studies that researched relationship between value added tax and inflation (Katz and Rosen 1985; Stern 1987; Poterba and Rotemberg 1990; Bayoumi and Gagnon 1992; Besley

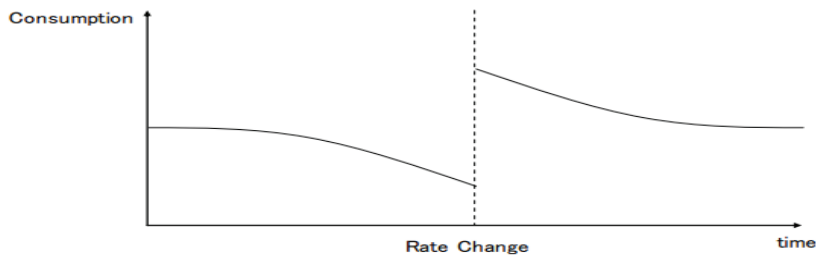
1999; Mankiw and Reiss 2002, Caballe and Panades 2004; Carbonnier 2007; Carare and Danninger 2008; Gabriel and Reiff, 2010; Miki 2011; Benkovskis et al. 2012; Benkovskis and Fadejeva, 2014). Poterba and Rotemberg (1990) reported a positive relationship between inflation and tax rates in the United States, as well as the fact that government uses these components to increase revenues in the budget. Benkovskis and Fadejeva (2014) examined the effect of value added tax rate on inflation in Latvia using the CPI microdata provided by the Central Statistical Bureau of Latvia. They argued that changes in the VAT rate could have an important implication for inflation, especially at the moments of VAT rate revisions. Using panel data models for 14 developed countries from the second quarter in 1980 to the third quarter in 2010, Miki (2011) reflects that aggregate consumption and economic growth display three trends when the value added tax rate is changed, where they increase or decrease just before the rise or reduction of the VAT rate.

**Figure 1. The movement of aggregate consumption - increase of VAT rate**



Source: Miki (2011)

**Figure 2. The movement of aggregate consumption - decrease of VAT rate**



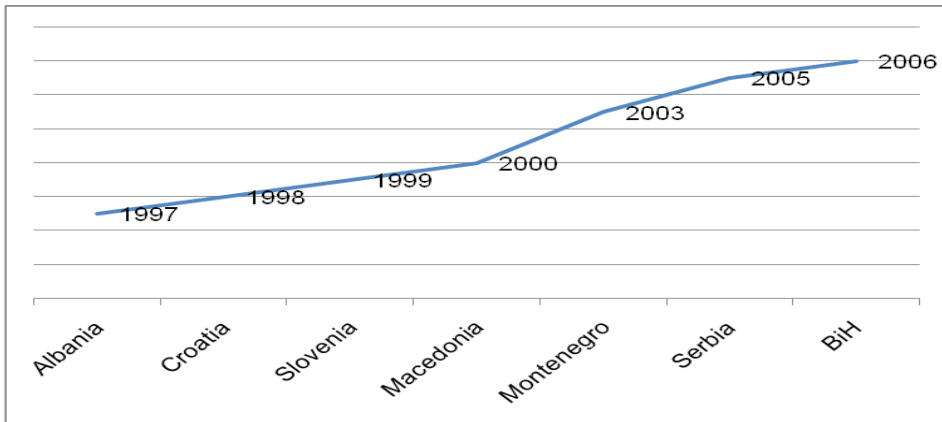
Source: Miki (2011)

In theory, if there is an announcement that the government will increase the VAT rate, people will buy things which may store before increasing this tax form. After its increase, aggregate consumption will decline because people will use the reserves of previously purchased products instead of buying new items. Furthermore, aggregate consumption will gradually grow as people used these things and have no need for new items.

## 2. Value added tax and inflation in Western Balkan countries

This chapter of paper is focused on a historical review of the introduction of value added tax and inflation rate in selected countries and also it's presented their trends rate from 2008 to 2016.

**Figure 3. Review of VAT introduction by country**



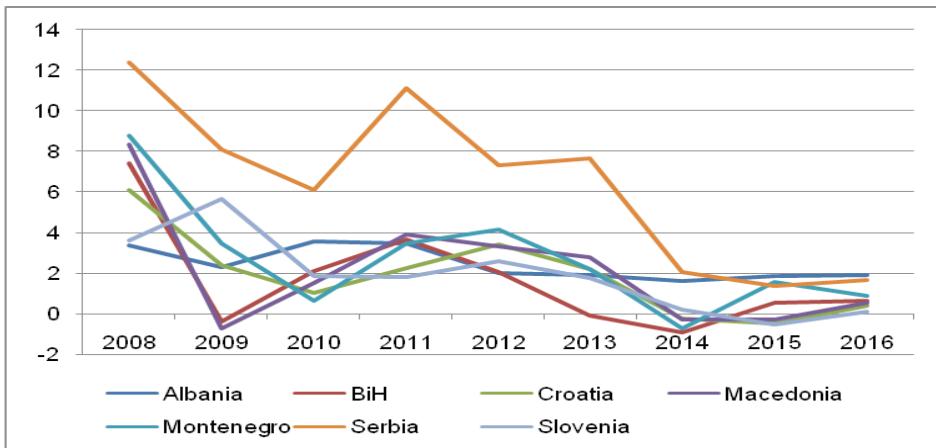
Source: Author based on <http://eurofast.eu>

Figure 3 reflects a historical overview of the introduction of VAT rates in the countries in the region. Bearing in mind that France was the first country which introduced this tax form in 1954 (Shenk and Oldman 2007), there is a noticeable time lag in relation to the countries in this region. Namely, Albania, Croatia, and Slovenia have succeeded to modernize their tax systems by introducing value added tax before 2000, while other countries take much more time for this step. This applies particularly to Serbia and Bosnia and Herzegovina which have recently introduced VAT in 2005 and 2006.

**Table 1. Review of VAT registration threshold in 2016**

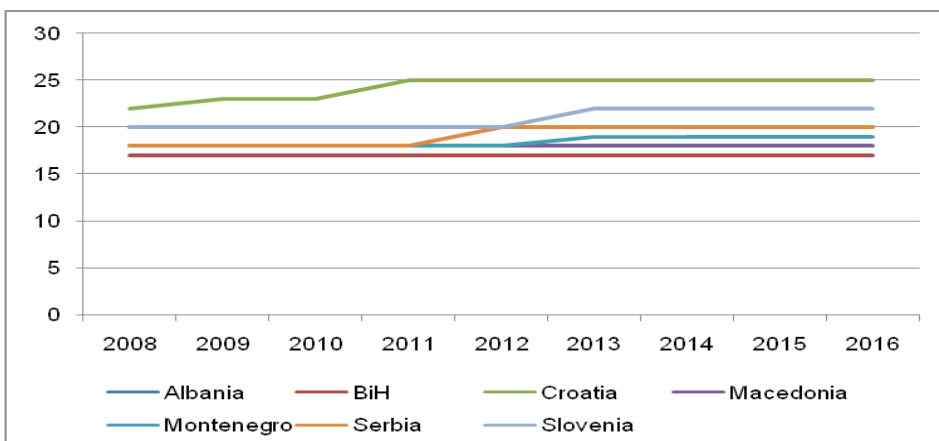
Country	Per year	Amount
Albania	Turnover for the last 12 months	5.000.000 ALL
Bosnia and Herzegovina	Turnover for the last 12 months	50.000 BAM
Croatia	Turnover for the last 12 months	230.000 HRK
Macedonia	Turnover for the last 12 months	1.000.000 MKD
Montenegro	Turnover for the last 12 months	18.000 EUR
Serbia	Turnover for the last 12 months	8.000.000 RSD
Slovenia	Turnover for the last 12 months	35.000 EUR

Source: Author based on <http://eurofast.eu>

**Figure 4. Trend of inflation rate in observed countries**

Source: Author based on [www.imf.com](http://www.imf.com).

Looking at a price level in the countries in the region, it can be seen that the highest inflation rate is in Serbia during the whole period. This is especially evident in the period from 2008 to 2011, when the average inflation rate in Serbia amounted 9.45%, provided that at the beginning of the period recorded a maximum inflation rate of 12.41%. In other countries for the same period, the average inflation rate ranged from 2% to 3%. If it compares the price level for the last three years, Albania had the highest average inflation rate of 1.82%, while Macedonia recorded a decrease of the general level of price by an average of 0.01%.

**Figure 5. Value added tax rate in observed countries**

Source: Author based on [www.kpmg.com](http://www.kpmg.com).

Figure 5 shows the movement of standard VAT rates in the countries in the region for the period 2008-2016. As can be seen, Croatia has the highest rate of 25% while on the other hand, Bosnia and Herzegovina has the lowest rate of 17%. When it comes to



the constancy of the VAT rate, it didn't change in Albania, Bosnia and Herzegovina and Macedonia and it remained the same during the observed period. In other countries, there has been an increase in the VAT rate by 1% or 2% as is the case in Montenegro, Serbia, and Slovenia, while Croatia recorded the highest increase in the VAT rates, there has been an increase in the VAT rate by 1% or 2% as is the case in Montenegro, Serbia and Slovenia, while Croatia recorded the highest increase in the VAT rate of 3% from the beginning to the end of the period.

### 3. Results

The aim of this paper is estimating the impact of value added tax on inflation in seven observed countries from 2008 to 2016. The author used the database from International Monetary funds for inflation and KPMG for value added tax rate for selected countries: Serbia, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, and Slovenia. First, it's reflected descriptive statistics.

**Table 2. Descriptive statistics**

Country	N	Mean	Std. Dev.	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Serbia	9	6.4400	4.03468	1.34489	3.3387	9.5413	1.39	12.41
Albania	9	2.4511	.77143	.25714	1.8581	3.0441	1.63	3.55
BiH	9	1.6844	2.58833	.86278	-.3051	3.6740	-.90	7.43
Croatia	9	1.9022	2.03871	.67957	.3351	3.4693	-.46	6.08
Macedonia	9	2.1200	2.87830	.95943	-.0925	4.3325	-.74	8.33
Montenegro	9	2.7122	2.75274	2.75274	.5963	4.8282	-.71	8.76
Slovenia	9	1.8956	1.91893	.63964	.4205	3.3706	-.52	5.65
Total	63	2.7437	2.91930	.36780	2.0084	3.4789	-.90	12.41

*Source:* Author based on SPSS

As it can see, the largest average inflation was recorded in Serbia and it amounts to 6.44% which is almost three times more than the average inflation in the observed group of countries. Similarly, the largest standard deviation is presented in Serbia of 4.03468 which is nearly double the total standard deviation. This can be attributed to a wide range of minimum and maximum rates of inflation in Serbia, where it ranged from 1.39% to 12.41%. Looking at the other countries, the average inflation rate is the lowest in Bosnia and Herzegovina, Slovenia and Croatia which didn't exceed 2%, while it's at a level of 2.5-2.7% in Albania, Macedonia and Montenegro.

**Table 3. ANOVA test**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	150.189	6	25.032	3.706	.004
Within Groups	378.192	56	6.753		
Total	378.192	62			

*Source:* Author based on SPSS

Testing the null hypothesis of significance, results reflect that there is a statistically significant difference among the observed countries ( $p=0.004<0.05$ ). After that, authors used multiple comparisons procedure and statistical test Tukey's HSD test to find means which are significantly different from each other.

**Table 4. Multiple Comparisons - Tukey's HSD test**

(I) Countries	(J) Countries	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Serbia	Albania	3.98889*	1.22506	.030	.2427	7.7351
	BiH	4.75556*	1.22506	.005	1.0093	8.5018
	Croatia	4.53778*	1.22506	.008	.7915	8.2840
	Macedonia	4.32000*	1.22506	.014	.5738	8.0662
	Montenegro	3.72778	1.22506	.052	-.0185	7.4740
	Slovenia	4.54444*	1.22506	.008	.7982	8.2907
Albania	Serbia	-3.98889*	1.22506	.030	-7.7351	-.2427
	BiH	.76667	1.22506	.996	-2.9796	4.5129
	Croatia	.54889	1.22506	.999	-3.1973	4.2951
	Macedonia	.33111	1.22506	1.000	-3.4151	4.0773
	Montenegro	-.26111	1.22506	1.000	-4.0073	3.4851
	Slovenia	.55556	1.22506	.999	-3.1907	4.3018
BiH	Serbia	-4.75556*	1.22506	.005	-8.5018	-1.0093
	Albania	-.76667	1.22506	.996	-4.5129	2.9796
	Croatia	-.21778	1.22506	1.000	-3.9640	3.5285
	Macedonia	-.43556	1.22506	1.000	-4.1818	3.3107
	Montenegro	-1.02778	1.22506	.980	-4.7740	2.7185
	Slovenia	-.21111	1.22506	1.000	-3.9573	3.5351
Croatia	Serbia	-4.53778*	1.22506	.008	-8.2840	-.7915
	Albania	-.54889	1.22506	.999	-4.2951	3.1973
	BiH	.21778	1.22506	1.000	-3.5285	3.9640
	Macedonia	-.21778	1.22506	1.000	-3.9640	3.5285
	Montenegro	-.81000	1.22506	.994	-4.5562	2.9362
	Slovenia	.00667	1.22506	1.000	-3.7396	3.7529
Macedonia	Serbia	-4.32000*	1.22506	.014	-8.0662	-.5738
	Albania	-.33111	1.22506	1.000	-4.0773	3.4151
	BiH	.43556	1.22506	1.000	-3.3107	4.1818
	Croatia	.21778	1.22506	1.000	-3.5285	3.9640
	Montenegro	-.59222	1.22506	.999	-4.3385	3.1540
	Slovenia	.22444	1.22506	1.000	-3.5218	3.9707
Montenegro	Serbia	-3.72778	1.22506	.052	-7.4740	.0185
	Albania	.26111	1.22506	1.000	-3.4851	4.0073
	BiH	1.02778	1.22506	.980	-2.7185	4.7740
	Croatia	.81000	1.22506	.994	-2.9362	4.5562
	Macedonia	.59222	1.22506	.999	-3.1540	4.3385
	Slovenia	.81667	1.22506	.994	-2.9296	4.5629

Slovenia	Serbia	-4.54444*	1.22506	.008	-8.2907	-.7982
	Albania	-.55556	1.22506	.999	-4.3018	3.1907
	BiH	.21111	1.22506	1.000	-3.5351	3.9573
	Croatia	-.00667	1.22506	1.000	-3.7529	3.7396
	Macedonia	-.22444	1.22506	1.000	-3.9707	3.5218
	Montenegro	-.81667	1.22506	.994	-4.5629	2.9296

\*. The mean difference is significant at the 0.05 level.

Source: Author based on SPSS

Table 4 manifests the difference between the average values of the inflation rate for the observed group of selected countries. Looking at the value for Serbia, it's evident that there is a significant difference compared to other countries, apart from Montenegro where there is no significant difference on the basis of p-value ( $0.052 > 0.05$ ). The highest difference between the average value was recorded between Serbia and Bosnia and Herzegovina, where it is 4.7556 which is slightly more compared with the Croatia, Macedonia, and Slovenia, where it is also above 4. Considering that the total value of the observed countries, the average inflation rate is almost three times higher in Serbia than the average of other countries. On the other hand, if we exclude Serbia from the analyzed group, there is a difference between the average inflation rate, but it's not statistically significant.

## Conclusion

Inflation is one of the two most important macroeconomic phenomena in addition to the gross domestic product. It depends on a number of determinants, and one of the reasons for an increase in the level of prices on the general level and greater inflationary risks can be value added tax. This tax form represents on the most abundant forms of taxation in the countries in the region. Observing the tax rates in the region, it's showed that Albania, Bosnia and Herzegovina and Macedonia didn't change rates in the analyzed period, while other countries had increased value-added tax rates. It's noticeable that in the years when it came to the increase of this tax form in these countries, inflation rate declining. Thus it can be concluded that the value added tax doesn't have a positive effect on the inflation rate in terms of its growth. However, using ANOVA test and Tuckey's HSD test, it was found out a significant difference in terms of the average inflation rates between countries. The results showed that there is a statistically significant difference between the average values of the inflation between countries, where if we look only Serbia, it has been found that the average inflation rate is significantly different compared to all the countries in the region, except Montenegro, where it has been established that there is no significant difference in terms of this indicator. Future research will be focused on the creation of regression model of inflation and including more independent variable how it would be easy to get an answer on a question which variables have a significant impact on inflation.

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## EVALUATION OF MACEDONIAN BANKS' CREDIT POLICIES BEFORE AND AFTER THE 2008 CRISIS: A COMPARATIVE STUDY

### Abstract

*The aim of this paper is to evaluate the banks' credit policies in Macedonia in comparison to the developed countries before and after the 2008 crisis. In particular, it assesses the credit policies and whether and how the policies were amended following the global recession. In this regard, we formulate two research questions which we tend to analyze based on the collected data. The research is based on a quantitative approach using interviews with senior and middle credit managers from twenty banks in Macedonia, SEE and USA to analyze the changes in their credit policies. The results provide the following findings: 1) The credit policies of the Macedonian banks are more conservative than those of foreign banks in both observed periods; and 2) The financial crisis impacted the credit policies of all observed banks, yet the impact is stronger within the SEE and the USA banks. The obtained results might be of interest for ongoing improvement of the banks' credit and risk management, as well as for the policy makers to prevent future financial crises.*

**Key words:** credit policy, credit risk, banks, financial crisis

**JEL classification:** G21, G01

## ЕВАЛУАЦИЈА КРЕДИТНЕ ПОЛИТИКЕ МАКЕДОНСКИХ БАНАКА ПРЕ И ПОСЛЕ КРИЗЕ 2008. ГОДИНЕ: КОМПАРАТИВНА СТУДИЈА

### Апстракт

*Циљ овог рада је евалуација кредитне политике банака у Македонији у односу на развијене земље пре и после кризе 2008. године. Посебно се проијењује кредитне политике и да ли су и како су политике измењене након глобалне рецесије. С тим у вези, формулишемо два истраживачка питања која тежимо да анализирамо на основу прикупљених података. Истраживање се заснива на квантитативном приступу користећи интервјуе са вишим и средњим*

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*кредитним менаџерима из двадесет банака у Македонији, ЈИЕ и САД-у да анализирају промене у њиховој кредитној политици. Резултати пружају следеће налазе: 1) кредитна политика македонских банака су конзервативније од страних банака у оба посматрана периода; и 2) Финансијска криза утицала је на кредитне политике свих посматраних банака, али утицај је јачи унутар ЈИЕ и америчких банака. Добијени резултати могу бити од интереса за континуирано побољшање управљања кредитима и ризиком банака, као и за доносиоце политика како би се спречиле будуће финансијске кризе.*

**Кључне речи:** *кредитна политика, кредитни ризик, банке, финансијска криза*

## Introduction

Lead by the need for constant growth of its profit as a major indicator for successfulness of a bank, the banks undertook aggressive policies for the growth of their credit portfolios. According to Stulz (2015) general rule for the bank is to undertake risks to increase shareholders' wealth and the banks which do not undertake risk lose its value. Facing with increased competition on the lending markets, banks were making greater pressure on the officers to sell more credit products. As Jiang et al. (2017) stated, an intensified competition reduces bank profit margins and encourages banks to increase the riskiness of their loan portfolios and to provide nontraditional products and services. The competition can reduce the banks' ability to select enough information about the borrowers' worthiness and to increase the level of credit risk.

The bank credit growth as measure of bank performance is justified by a large literature (Levine and Zervos 1998, Zemel, 2015). In the same time, loan growth is a crude measure of credit risk (Scala, 2012) and excessive growth may lead into financial crisis as it happened with the rapid lending expansion in the US mortgage sector before 2008. During the world economic crisis in 2008 and the post-crisis period, the banking industry suffered one of the biggest damages ever. Industry growth has slowed considerably; the growth rate of assets of the top 1000 banks globally in the post-crisis period remained 2.7%, compared to the double digit growth rates witnessed during the pre-crisis years of 2006 to 2007 and profit before tax has dropped 85.3% or \$667 billion in absolute amount in 2008 (Capgemini, 2012).

The post-crisis period is characterized by stronger regulatory and supervision activities of the banking systems and by higher requirements for capitalization in almost all world countries. In general, Europe has been suffering from a downward spiral since the financial crisis, creating atmosphere of weak or negative economic growth and high levels of non-performing loans for European banks operations. The situation of the US banking sector in the same period is much like the one of the 15 EU countries, for example the declining number of the banks because of failures, consolidation and merging processes. While, before the financial crisis, both US and European banks reported record profit levels, only the US banks are beating those nowadays, while European peers are struggling to sustainably stay above the zero line (Schludbach, 2013). Unlike the banks from developed countries, Central and Eastern Europe (CEE) banks were particularly and severely affected by the crisis.

The Macedonian financial system is bank-dominated and based on a traditional banking model with loan supply as main activity. Filipovska (2017) differentiates the large banks that are part of an international banking group and the small local banks in regard to the risk potential and development opportunities. Macedonian banking sector had lowest effect from the financial crisis (Delova Jolevska and Andovski, 2015). In the years after the financial crisis the rate of non-performing loans kept the level of around 11, 5% and fell to 7.1% during 2016.

The aim of this paper is to examine the evolution of credit policies after the crisis of the Macedonian banks and banks of developed countries (SEE countries and US). We have interviewed high and mid-level credit managers from twenty banks in Macedonia, EU and USA to evaluate their credit policies before and after the financial crisis, based on their own perception. Most of the researchers of the banking sectors mainly analyze the Macedonian banking system in context of the banks from Balkan, South East European countries or neighboring countries. The comparison of the credit policies' development of the Macedonian banks with banks from advanced economies in this paper presents a novelty in the Macedonian banks analysis.

The results of our research demonstrate more aggressive credit policies of SEE and US banks before the 2008 crisis that was remodeling in moderate credit expansion after the crisis. The rest of this article is organized in a following manner. In Section 2, we present the theoretical review of the banks' credit policies. In Section 3 we explain methods. Section 4 describes the results of the analysis. The main findings and conclusions are presented in Section 5.

## Literature review

The banks' interest income as a result of asset transformation continues to be the primary source of profits for most commercial banking companies (DeYoung and Rice, 2004). Since credit composes the largest income-earning asset in the portfolio of most banks, they have to monitor and ensure that firms effectively use resources allocated to them (Allen and Carletti, 2008).

Uppal and Kaur (2009) analyze how banks use their funds to earn the highest income with decreasing expenses so they can be competitive in a growing global competition. According to the risk-return hypothesis, higher loan to asset ratio means higher credit risk exposure which needs to be compensated through higher returns and improved overall profitability.

Skala (2012) considers the loan growth as the most natural part of every bank's activities, especially on developed markets, where the degree of market saturation is high and relatively few decent quality customers are absent from the banking system. She pointed out the differences of developing markets, where bank expansion onto a new clientele may boost credit quality, in case of earlier weak saturation. The experience from the last crises shows profitable banks are more likely to take risk when leverage constraints are less binding and the reason may stem from a better institutional environment with more protection of creditor rights. Thus, this might be an explanation for the most banks affected by the crisis were in advanced economies (Martynova et al, 2015).

Claessens et al (2013) claim that unlike the past global crises when emerging market economies often suffered more than advanced economies did, in the recent

global financial crisis emerging market economies had a shorter recession and a quicker recovery. Similarly, Cottarelli et al. (2005) and Kraft and Jankov (2005) conclude that rapid loan growth on emerging market does not necessarily translate into a higher credit risk and in some cases, may even diminish it.

Kosmidou (2008) defines credit risk as bank asset quality measured through the loan - loss provisions. The loans' provisions indicate higher risk and higher probability of loans to become non-performing, therefore negatively influence the bank profitability (Athanasoglou, Brissimis and Delis, 2008; Demircuc-Kunt and Huizinga, 1999). According to Rajan (1994) the banks are not committed to the rational profit-maximizing rule. Instead, they alter their credit policy to manipulate current earnings by convincing the market in profitability of its lending. They can achieve this with a liberal credit policy that generates up-front fees at the expense of future credit quality. By him the credit cycles may be partially fueled by banks own policies, in this way,

Berger and Udell (2003) offered a hypothesis of loss of institutional memory that may drive a pattern of business lending with deterioration in the ability of a bank to recognize potential loan problems and an easing of credit standards over its own loan cycle. According to this hypothesis, lending institutions may tend to forget the lessons they learned from their problem loans as time passes since their last loan bust. The reason for this loss of institutional memory is explained with the deterioration of the loan officer skills. This on the other hand results in an easing of credit standards as officers become less able to differentiate lower-quality borrowers from higher-quality borrowers. The work of Bouwman and Malmendier (2015), an analysis of the credit inspectors' reports of U.S., confirms the institutional memory hypothesis. Also, in some empirical studies (Malmendier et al., 2011; Chen et al., 2012), an importance of the overconfidence effect influencing the quality of loans granted is stressed.

Within the frame of credit risk management, the banks establish a clear process to approve new credits as well as monitoring existing credits. The internal factors that influence the banks credit risks according to Chilukuri and Rao (2014) are: deficiencies in loan policies, absence of prudential credit concentration limits, inadequately defined lending limits, deficiencies in appraisal of borrowers' financial position, excessive dependence on collaterals and inadequate risk pricing, absence of loan review mechanisms and post sanction surveillance, etc.

## Methodology

We use an interrupted time series (ITS) analysis in combination with qualitative interviews to assess outcomes at baseline before the financial crises (pre-testing phase) and after the financial crises (post-testing phase) to evaluate the long-term effect of the financial crisis on the banks' credit policies. ITS is a robust quasi-experimental design and is most commonly used in implementation science to evaluate the effect of interventions such as quality improvement programs or policy changes. In ITS designs, data are collected before and after the implementation or introduction of an intervention to examine whether the intervention influenced the outcome of interest relative to the underlying secular trend as well as competing non-contemporaneous interventions (Harris et al, 2006; Zhang et al, 2011).

In our ITS study design, data are collected once but for time before (respectively) and after the financial crises (at present) to detect whether the crisis had a significant effect on the banks' credit policies. Since the questioning was provided in 2015 using the same questions for the banks' credit policies before the 2008 crisis and for recent credit policies, we explain our method with ITS. However, because the participants in the interview mainly rely on their memory to identify what was the credit policy of their banks in the past it can reduce the generalizability of the results. As Grimes and Schulz (2002) claim recall bias is commonly believed to be “pervasive in case-control studies” mainly because the human memory is imprecise (p. 249).

We have used a questionnaire as a data collection tool which will enable us to collect the necessary information for evaluating and comparing the credit policies in South East Europe (SEE), USA and Macedonia. We relied on the European Central Bank Questionnaire for bank lending survey for the euro area as a basis for our survey and we adjusted them to our research question and on internal factors that influence the banks credit risks of Chilukuri and Rao (2014). The questionnaire, besides the questions directly related to the credit policy (targets, criteria, decision making, manuals etc.), contains a set of indirect questions for evaluating if the credit policy is restrictive, moderate or aggressive (impact of credit growth and of the non-performing loans on the banks' employees' remuneration). Those questions are used for determining the level of risk appetite between different banks in two observed periods. The questionnaire is comprised by two groups of sixteen identical questions regarding the tested period that is divided into two sub periods: 2004-2008 and after 2008.

The data was provided through online communication with the respondents and the survey was conducted over a period of two months, from September to October 2015. We have contacted 59 respondents, 29 from eight Macedonian banks and 30 from twelve SEE and USA. Eight out of fifteen Macedonian banks were subject of interview, and they are representatives of all the three groups of banks according to their size: big, medium and small. The following Macedonian banks were included in the interview: Alfa bank Skopje, Kapital bank Skopje, Pro Credit bank Skopje, Stopanska bank Skopje, TTK bank Skopje, NLB Tutunska bank Skopje, Halk bank Skopje and Sparkasse bank Macedonia Skopje.

Five banks from United States of America (USA), five banks from new EU Members States and one from Greece were selected mainly through a convenience sampling method joined in a group of the SEE. Convenience sampling also known as availability sampling is a specific type of non-probability sampling method that relies on data collection from population members who are conveniently available to participate in study based on the ability for negotiating access with them through existing contacts (Saunders, 2012).

The banks from SEE and US that were included in this research are: Alpha Bank Gr, National Bank of Greece, Nova Ljubljanska banka Slovenia, Wells Fargo, WI – USA, HCBS USA, Platinum bank USA, Coulee bank USA, Merchants bank USA, Kentbank Croatia, First Investment bank Bulgaria and TBC bank Georgia. All persons involved in the interviews are senior or middle loan managers in the selected banks continuously during the examined period and all have responded on the questionnaires.

The collected data are analyzed by comparing the answers for before and for after the crisis of respondents from Macedonian banks and from foreign banks for evolution

of the credit policies between the periods and the banks.

Research question 1: The credit policies of the Macedonian banks are more conservative than those of foreign banks in both observed periods.

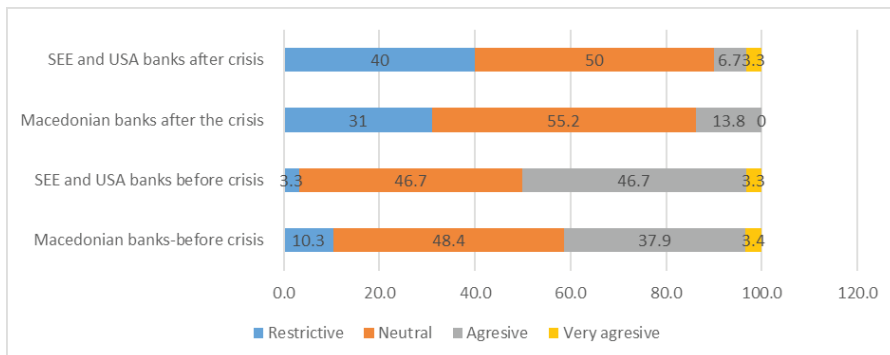
Research question 2: The financial crisis had an impact on the credit policies of all observed banks.

## Empirical Findings

This section presents the main findings of the collected data. We compared the respondents' answers for their banks credit policies before and after the crisis and the answers of the respondents from Macedonian banks and from other banks (SEE and USA). By doing this, we made inferences about the changes in credit policies of the examined banks as a result of the financial crisis.

Figure 1 presents the data on the extent of aggressiveness or conservativeness of the credit policies of the banks. The credit policies of all banks that are subject of our research switched from mostly neutral and aggressive before the crisis to restrictive and neutral after the crisis. The Macedonian banks credit policies have been more moderate than those of foreign banks, in both periods before and after the crisis. The change towards greater restrictiveness was much higher in the SEE and USA banks which can be related to the extent of the financial crises in those countries, given that Macedonia was only moderately hit by the crises.

Figure 1 Credit policy valuation of banks in Macedonia, SEE and USA before and after the crisis

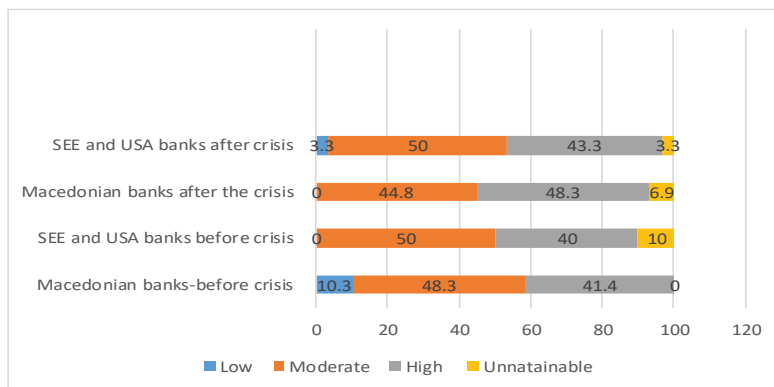


Source: Questionnaire data.

Valuation of credit targets of the Macedonian banks presented in Figure 2 shows increased targets after the crisis and especially for high and unattainable targets. This situation is in line with the moderate credit policies of Macedonian banks in the past and its ability to increase credit appetite after the crisis. Credit targets of foreign banks are mostly moderate and high in pre - and after - crisis with low decreasing of the unattainable in the favor of high and low aggressive targets. There are no significant changes in credit targets after the crisis and the explanation can be found in unchanged amount of lending

in most developed countries (mostly in the SEE).

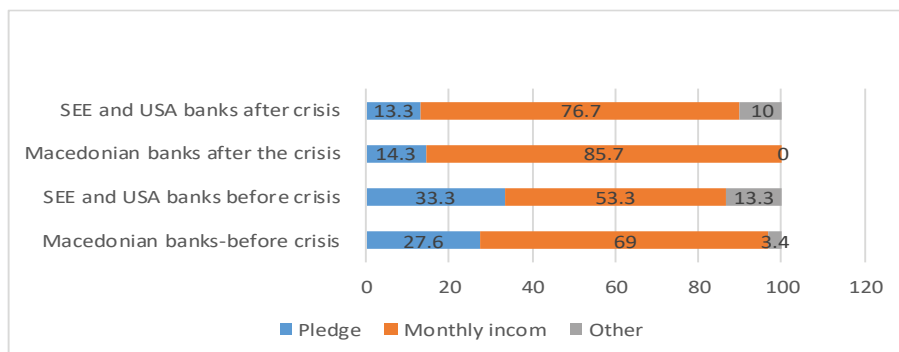
Figure 2 Credit target valuation in banks in Macedonia, SEE and USA before and after the crisis



Source: Questionnaire data.

The main credit criteria for approval of loans in Macedonian banks are financial data for corporate clients and monthly income for retail clients (Figure 3). This holds for both examined periods. The foreign banks have similar structure and trend reaching almost absolute importance of financial data after the crisis. The amended credit policies show the measures undertaken by the banks to prevent the prospective distress in credit portfolios in the future. That is likely related to the relaxed credit standards in USA, mortgage lending that relied mostly on the mortgage instead on the lender ability to repay its loan obligations, which was a key factor in the financial crisis.

Figure 3 The main credit criteria in banks in Macedonia and SEE and USA, before and after the crisis



Source: Questionnaire data.

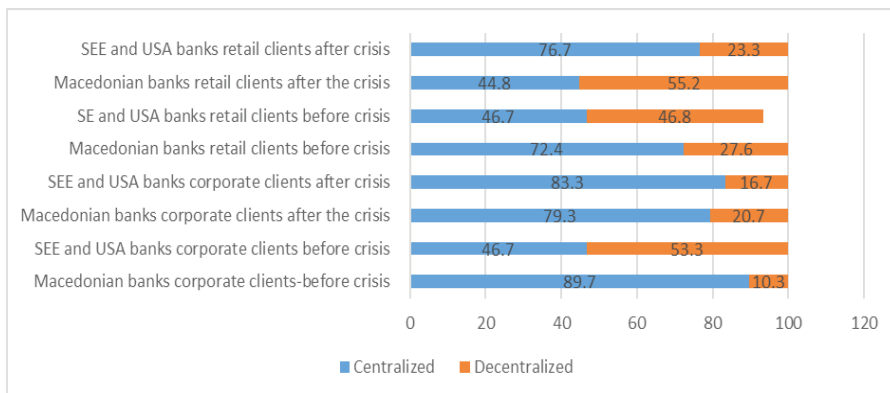
Among the most frequent types of collateral with both groups of banks are real property (more than 75%) and notes payable (17.2% in Macedonian banks and 10% in

foreign banks) while inventories are the least frequent (only 3.3% in both groups).

Both groups of examined banks made more centralized credit decisions for corporate clients in the period after the crisis and it is more significant shift from decentralized credit decisions with the group of SEE and USA banks. Before the crisis, the foreign banks made more decentralized credit decisions that enable fast and higher volume credit decisions for more aggressive lending, and in some circumstances might have caused lower quality of credit portfolio. Making centralized decisions is a way of culture in behavior and economy in Macedonian society that represents limitation for making timely decisions and processing of more activities. This is a conservative way of making decisions by high level authorities that can be characterized with higher competence, quality and responsibility.

The credit decisions for retail clients are mostly centralized (in 72.4% of cases) in Macedonian banks and slightly decentralized (53.3%) in foreign banks. The banks' operation with citizens involves a large number of clients and therefore asks for promptness and higher flexibility. The retail credit portfolio has a lower individual credit volume and more dispersed risk. Despite those characteristics that suggest decentralization, the Macedonian banks remained conservative through centralizing the credit decisions. The more sophisticated statistical base, rating models and tradition that support the decentralization are main elements behind the higher decentralization in credit decision making in foreign banks.

Figure 4 Credit decision for corporate and retail clients in banks in Macedonia and SEE and USA before and after the crisis



Source: Questionnaire data.

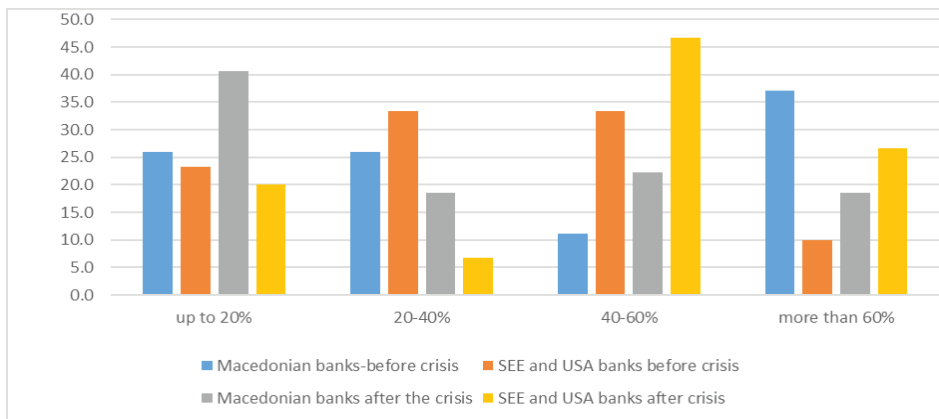
More than 60% of the credit decisions are mostly approved by the credit board in all examined banks before and after the crisis. The credit board decisions were reduced after the crisis in Macedonian banks. In the combination with the previous questions (those related to the level of decentralization of the credit decisions) this could indicate relaxation of the credit policies of the Macedonian banks as reverse trend of foreign banks.

The foreign banks mainly make decisions by system and not by human factor (this has been reported in 40 and 60% of cases, before and after the crisis, respectively). They

have used objective factors in decision making, like scoring model and other software methods. In contrast, the Macedonian banks make decisions mostly with involvement of the human factor which increases the subjectivity in decision making, but decreases deficiency of applying the “one for all” model that do not take in consideration the characteristics of each lender. This is in line with the thesis of making centralized decisions whit human factor impact.

Macedonian banks mostly relied on human factor in making credit decisions and on a high-level management (over 60%) which confirms the previous thesis for higher conservative credit policy of Macedonian banks (Figure 5). In some way, this supplements the previous question. The foreign banks have increased the percentage of credit decisions by the senior managers after the crisis and this witnesses the tightening of credit policies. Macedonian banks faced with lower participation of the senior managers in credit decisions. If this is a result of developing the banking sector and improving the lending process that leads towards the decentralization in credit decisions, it might be seen as a natural process of evolution.

Figure 5 Decisions made by high level management in Macedonian and SEE and USA banks before and after crisis



Source: Questionnaire data.

The credit manuals for corporate lending are stricter with Macedonian banks having more detailed manuals before (65.5%) and after the crisis (79.3%), comparing to more general manuals (53.3%) before the crisis and more detailed manuals (83.3%) after the crisis with foreign banks.

The manuals for retail lending are detailed for all examined banks before and after the crisis, with high 96.6 % with Macedonian banks and 96.7% with foreign banks after the crisis.

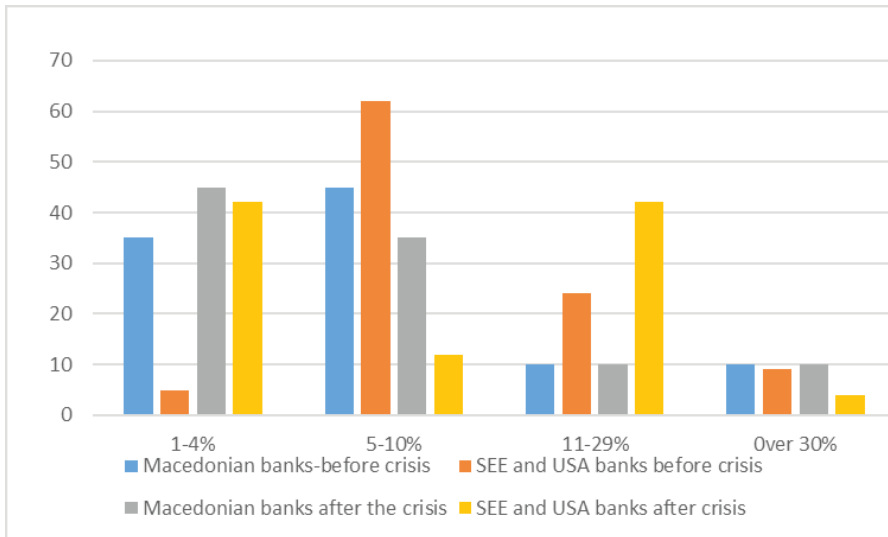
All the examined banks use low level of exceptions in loan approving, before and after the crisis. Macedonian banks make comparatively less exceptions. This higher “self-control” of Macedonian banks matches the picture of being more conservative banks, focused on higher quality than on quantity of the credit portfolio.

Results from the answers about the banks non-performing loans presented in



Figure 6 indicate similar percentage of non-performing loans of 1 to 4 percentage of the portfolio with both groups of banks before the crisis. However, the situation is different after the crisis with higher percentage of non-performing loans in group of up to 10% of the portfolio of Macedonian banks and in group of up to 30% of the portfolio of the SEE and the USA banks. This result is in line with evidences that emerging markets suffer less and recovers faster after the 2008 crisis (Claessens et al 2013, Cottarelli et al. 2005, and Kraft and Jankov 2005).

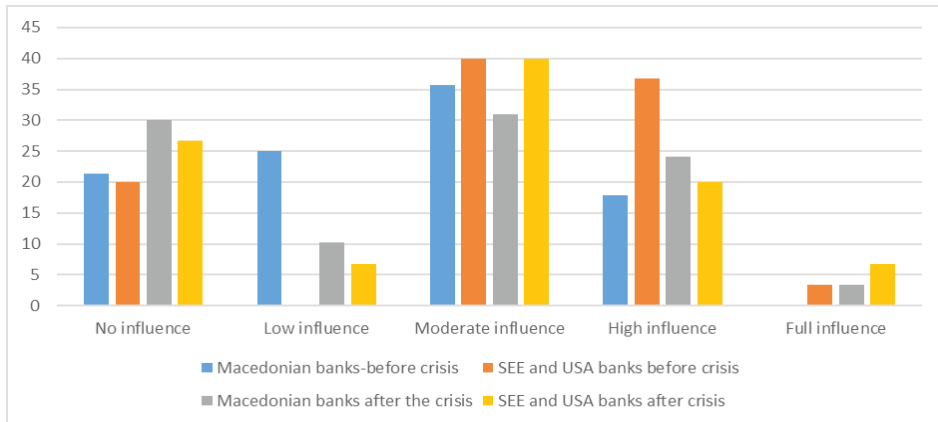
Figure 6 Nonperforming loans in banks in Macedonia and SEE and USA before and after the crisis



Source: Questionnaire data.

Figure 7 presents information on the “stimulus” for credit behaviors of the banks, either conservative or aggressive. As expected, it shows that the employees and the managers in foreign banks are motivated for higher selling / lending. The influence of the bonuses on the level of credit activities is higher with foreign banks (“moderate and high” was evaluated by 77% of respondents). Most of the Macedonian banks haven’t got any or have “low or moderate” level of correlation between the employees’ remuneration and credit growth.

Figure 7 Credit growth and bonuses in banks in Macedonia and in SEE and USA before and after the crisis



Source: Questionnaire data.

The last question correlates the remuneration process with the credit portfolio quality. The foreign banks have “weak to moderate” relation and Macedonian banks “moderate to high” relation in both observed periods. This is in line with previous conclusions that Macedonian banks place higher importance on the quality of credit portfolio on the account of the volume of the portfolio.

Based on the previous analyses we are able to provide an answer to the initial research questions:

Research question 1: *The credit policies of the Macedonian banks are more conservative than those of foreign banks in both observed periods* is confirmed completely by the analysis of answers. The stronger conservatism is recognized in: moderate credit policies before the crisis, lower credit targets, more centralized loan approval, low level of exceptions in loan approval process, conservative credit manuals, lower level of motivation for lending. Increased participation of senior management in loan decision making is one step more toward curbing the excessive lending growth in foreign banks before the crisis. Credit manuals of foreign banks became stricter after the crisis. The question about the loans` delinquency is a proof of the validity of other responses and consequent analysis.

Research question 2: *The financial crisis` impact on the credit policies of all observed banks* is confirmed, as well, but the foreign banks are more impacted than the Macedonian banks. The analyzed data from the questionnaire confirm validity of the research question 2 by indicating stronger development of accurate credit policies in foreign banks after the crisis. Financial crisis modestly influenced the credit policies of Macedonian banks, whereas, foreign banks met with considerable changes in credit policies from the period before the crisis. Foreign banks changed their credit policies from aggressive, before the crisis, to restrictive, after the crisis. They increased the importance of financial data on the account of using only collateral in process of lending decision making. The influence of the bonuses on the level of credit activities with foreign banks decreased from high before the crisis to moderate and low influence after the crisis.

Because of more conservative credit policies, non-performing loans' participation in the portfolio of Macedonian banks increased from mainly 4% before the crisis to 10% after the crisis, unlike of the changes in non-performing loans of SEE and US banks to almost 30% of the portfolio. This cyclical underestimation of the credit risk before the crisis by the banks' managers and the overestimation of credit risk after the crisis is in line with institutional memory hypothesis of Berger and Udell (2004).

## Conclusion

The aim of this paper is to evaluate the banks' credit policies in Macedonia in comparison to the developed countries before and after the 2008 crisis. In particular, it assesses the credit policies and whether and how the policies were amended following the global recession. The research is based on a quantitative approach using interviews with the senior and middle managers in twenty banks in Macedonia, SEE and USA to analyze the changes in their credit policies. The interview is conducted during 2015. The development of the credit policies of the examined banks is assessed based on the perception of the credit officers for the differences in the policies of their banks before and after the crisis.

The study sought to provide answers to two research questions: 1. Are the credit policies of the Macedonian banks more conservative than those of foreign banks in both observed periods and 2. Did the financial crisis impact the credit policies of all observed banks? Both of these questions have been verified by analyzing the received answers from the interviews. Namely, the largest part of the respondents from the SEE and USA banks characterizes their banks credit policies as aggressive before the crisis and that they shifted into slightly more restrictive after the crisis. There was also change in the credit policies of Macedonian banks from “moderate and aggressive” to “moderate and restrictive”. The answers to all other questions confirm the previous thesis. Because of the differences in the aggressiveness of the credit policies of Macedonian banks and SEE and USA banks, the non-performing loans' share of the loan portfolio of Macedonian banks increased from 4% before the crisis to 10% after the crisis, whereas the share of non-performing loans of SEE and USA banks to almost 30% of its loan portfolio. This cyclical underestimation of the credit risk before the crisis by the banks' managers and the overestimation of credit risk after the crisis is in line with institutional memory hypothesis of Berger and Udell (2004).

The general conclusions from this evaluation of the credit policies of the Macedonian and foreign banks is that Macedonian banks had more restrictive credit policies compared to foreign banks in the period before the crisis. The liberal “approach” of credit policies of the foreign banks has worsen their credit portfolios and needed to improve prudence and restrictiveness in their credit policies. From the other side, the Macedonian banks had healthy, safe and moderate restrictive credit policies before the crisis that enabled them to continue without additional restrictive measures and even to liberalize some segments of its lending. The results of our research demonstrate that the more aggressive credit policies of SEE and USA banks before the 2008 crisis were transforming into more prudent policies after the crisis.

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## BOOK REVIEWS

Vladimir Radivojević

### **THE ROLE OF COMPETITION POLICY IN MANAGING THE DETERMINANTS OF THE FIRM'S COMPETITIVE ADVANTAGE**

Society of Economists „Ekonomika“, Niš  
(Monograph), 2018

Владимир Радивојевић

### **УЛОГА ПОЛИТИКЕ ЗАШТИТЕ КОНКУРЕНЦИЈЕ У УПРАВЉАЊУ ДЕТЕРМИНАНТАМА КОНКУРЕНТСКЕ ПРЕДНОСТИ ПРЕДУЗЕЋА**

Друштво економиста „Економика“, Ниш  
(Монографија), 2018

The Society of Economists „Ekonomika“ from Niš published the monograph of national importance under the title „The Role of Competition Policy in Managing the Determinants of the Firm's Competitive Advantage“, written by Vladimir Radivojević.<sup>1</sup> The monograph is the result of many years researching and studying various aspects of competition policy by the author. The study deals with the importance and the role of competition policy in the process of gaining and maintaining the firm's competitive advantage. The author succeeded in putting the issue of competition policy in a wider context, through considering its individual and social dimension of impact.

The monograph is based on a modern approach of studying key phenomena that deal with competition policy and have significant impact on the market competition and positioning of market participants. Although, it is a complex matter, which has been given considerable attention in domestic and foreign economic literature in recent years, the author has managed to highlight the key problems and to process them in a scientifically and professionally original way.

The monograph contains five rounded and mutually consistent entities (chapters). The first chapter „The Competitive Advantage of Firms“ deals with the key theoretical determinants of competitive advantage and the importance of favorable competitive position of the firm in its long-term market survival. The author has managed to point out the complexity of the process of finding and using potential sources of competitive advantage in the conditions of rough global competition and slow economic growth. Also, the elaboration of a structural and resource-based approaches in the understanding of sustainable competitive advantage, as well as Porter's generic business strategies, represent particularly important part of this chapter.

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<sup>1</sup> The content of the monograph and the author's preface are available on the official website of the „Ekonomika“ library: <http://www.ekonomika.org.rs/sr/biblioteka.html>

The second chapter „The Intensity of Competition in the Market as a Determinant of the Firm's Competitive Advantage“ begins with the overview of the key contributions of some schools of economics that have left a deep trace in the competition theory: Classical political economy, Neoclassical theory of perfect competition, Theory of monopolistic competition, and the Harvard and Chicago school of economics. Examining the contributions of these schools of economics served as a good introduction to the conceptual determination of competition and the assaying of its importance in the economic development of a country. The influence of competition on economic efficiency and social welfare is thoughtfully analysed through theoretical observation of monopoly and perfect competition as two extreme forms of market structure. In order to analyse this influence in conditions that dominate real markets, which can not be classified in any of the two extreme forms of market structure (monopoly and perfect competition), the author also elaborates the meaning and existence of market power and the dominant position of the firm in the contemporary business conditions.

The third chapter „Violation of Competition and Its Institutional Protection“ examines the key concepts of the policy of establishing and protecting the effective competition among market participants. The author extensively analyses the role and mechanisms of competition policy in the economic and social development of the economy. After presenting the evolution of competition law from its appearance to present day, this chapter deals with three basic forms of distortion of market competition: restrictive agreements, abuse of dominant position, and (excessive) market concentration. Since modern competition law recognizes state aid as one of the potential sources of distortion of competition between market participants, the author has dealt with this field as well. An important segment of the third chapter is the presentation and analysis of the results of competition policy in the European Union and Serbia, including a comparative analysis of the fines imposed to participants in restrictive agreements in these economies.

The fourth chapter „Instruments of Competition Policy in the Function of Improving the Firm's Competitive Advantage“ is dedicated to the instruments used in the structural market analysis and the identification of market behavior, structures, and restrictions that distort competition. First, the author deals in detail with the hypothetical monopolist test and price correlation test as two dominant techniques for determining the relevant market. After that, the author elaborates the following indicators used to measure the degree of market concentration: Herfindahl-Hirschman index, Entropy index and Relative entropy index, Lorenz curve, Gini coefficient, Horvath index, Hannah-Kay index, Hall-Tideman index, and Rosenbluth index. The influence of potential competition and barriers to entry onto the structural characteristics of the market is the research subject in the next segment of this chapter. Finally, the author analyses the unannounced inspection and leniency policy as key instruments for detecting and proving the existence of a violation of competition.

The fifth chapter consists of three case studies in the field of competition policy. Two case studies refer to antimonopoly procedures conducted in the United States (against DuPont company) and the European Union (against United Brands company), while the third study relates to the analysis of competition intensity in the mobile telecommunications market in Serbia. Each case study has been processed through analytical steps that are theoretically elaborated in the previous chapters, and the findings of the studies can serve as a good didactic tool in the development of analytical skills

required for conducting theoretical and empirical research of competition policy issues. The author has clearly demonstrated the practical application of theoretically processed instruments of structural analysis, i.e. point out the influence of the selected antimonopoly procedures on the analytical development of key concepts in determining the relevant market and identifying the abuse of dominant position.

The monograph „The Role of Competition Policy in Managing the Determinants of the Firm's Competitive Advantage“ represents a significant contribution to domestic economic literature and useful guidebook for the scientific and professional staff interested in the field of competition policy and competitive advantage. The author successfully put this problem in the context of contemporary business conditions which are characterized by increasing market concentration and dynamism of the business environment. Although written at an enviable professional level, the text did not lose the quality of good textbook literature, which was greatly influenced by the case studies presented in the last chapter, as well as the tables and other graphic attachments presented in the previous chapters. Having in mind the content and the way of presentation, the monograph can be successfully used in working with students at faculties, as well as in the work of regulatory bodies for the protection of competition.

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## ШАБЛОН / ТЕМПЛАТЕ ЗА ПИСАЊЕ РАДОВА

Име аутора (Font size 10 Normal) Times New Roman (SR-Cyrilic)  
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