

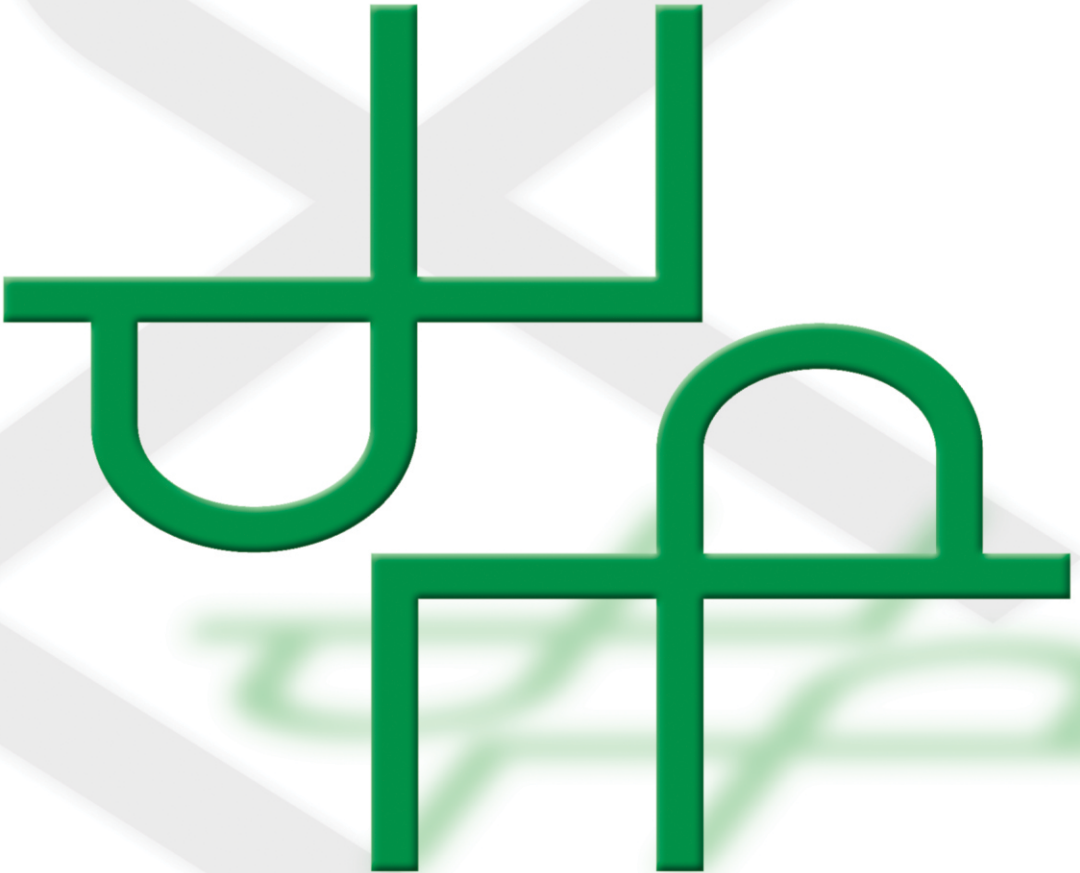
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# ЕКОНОМИКА

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МЕЂУНАРОДНИ ЧАСОПИС  
ЗА ЕКОНОМСКУ ТЕОРИЈУ И ПРАКСУ И ДРУШТВЕНА ПИТАЊА



# ЕКОНОМИКА

Часопис излази четири пута годишње

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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.

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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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ПО ЭКОНОМИЧЕСКОЙ ТЕОРИИ И ПРАКТИКЕ И ОБЩЕСТВЕННЫМ ВОПРОСАМ



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## **EDITORIAL**

Journal of Ekonomika of the 2015 has 61 years of continuous publication, and therefore one of the oldest economic journals in Serbia. The long tradition of publishing of the journal obliges us to do everything in our power to improve the quality of the Journal. The number 4/2014 Journal began printing works exclusively in English with abstracts that were given to the Serbian language. Moving into English, we wanted to increase the availability of the Journal and outside our borders. In this sense, it is followed and the change in the title of the Journal - Ekonomika and printed in Latin letters.

The editorial board of the Journal during the period from the end of 2013 so far quite focused their attention on improving the quality of published reports and increases the visibility of the Journal. This is primarily done to his involvement in the world reference base of scientific journals: Erich Plus, EBSCO, Index Copernicus, Ulrich's Web, J-Gate, SSRN, RePEc, EconPapers, etc. Cabi.org. Also, much has been done in relation to the openness of the Journal of Scientific contributions from abroad - to point out that the journal Ekonomika, after double anonymous peer review and revision of the manuscript, in the whole of last year and early this year published twelve original and review scientific articles by authors from abroad

This is an opportunity to thank the editorial board of the Journal, primarily contributors to the published journal issue. At the same time, we have to thank the reviewers for their efforts and constructive and critical comments and instructions to authors of submitted manuscripts.

Niš, March 2015.

EDITORIAL BOARD

## УВОДНИК

Часопис Економика од ове 2015. године улази у 61 годину непрекидног излагања и самим тим спада у ред најстаријих економских часописа у Србији. Дуга традиција излагања Часписа обавезује нас да урадимо све што је у нашој моћи да побољшамо квалитет Часописа. Од броја 4/2014 Часопис је почео да штампа радове искључиво на енглеском језику са апстрактима који су дати на српском језику. Преласком на енглески језик желели смо да повећамо доступност Часописа и ван граница наше земље. У овом смислу је уследила и промена у наслову Часописа – Економика је исписана и латиничним словима.

Уредништво Часописа је у периоду од краја 2013. до сада доста усмерило своју пажњу на унапређивање квалитета објављених прилога и повећавање видљивости Часописа. То је пре свега урађено његовим укључивањем у светски референтне базе научних часописа: Erih Plus, EBSCO, Index Copernicus, Ulrich's Web, J-Gate, SSRN, RePEc, EconPapers, Cabi.org итд. Такође је доста урађено у вези са отвореношћу Часописа за научне прилоге из иностранства - указујемо на то да је у часопису Економика, након двоструко анонимног рецензирања и ревизије рукописа, у целој прошлој и почетком ове године публиковано дванаест оригиналних и прегледних научних чланака аутора из иностранства

Прилика је да се Уредништво Часописа захвали, пре свега, ауторима прилога у досад објављеним бројевима Часописа. Истовремено, посебну захвалност дугујемо рецензентима на уложеном труду и конструктивним и критичким коментарима и упутствима ауторима поднетих рукописа.

Ниш, Марга 2015.

УРЕДНИШТВО

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ORIGINAL SCIENTIFIC ARTICLE  
Received: February 24, 2015  
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## RATIONAL CHOICE THEORY AND RANDOM BEHAVIOUR

### Abstract

*According to rational choice theory, rational consumers tend to maximize utility under a given budget constraints. This will be achieved if they choose a combination of goods that cannot satisfy their needs and provide the maximum level of utility. Gary Becker imagines irrational consumers who choose bundle on the budget line. As irrational consumers have an equal probability of choosing any bundle on the budget line, on average, we expect that they will pick the bundle lying at the midpoint of the line. The results of research in which artificial Becker's agents choose among more than two commodities rational choice theory is small. And in more than two budget/price situations show that the percentage of agents whose behaviour violate. Adding some factors to Becker's model of random behaviour, experimenters can minimize these minor violations and fit the actor's choice with the theory. In addition, the results of organizations' choices analysis show that the observed agents behave rationally, and this behaviour confirms the theory rational choice. Therefore, rational choice theory is unfalsifiable. As the theory can always fits with the facts, it would have been much more productive if we had admitted that the theory was falsifiable and then debated its explanatory value in specific circumstances.*

**Key words:** *rational choice theory, Beker's model of random behaviour, generalized axiom of revealed preference, falsifiability, utility maximization, rationality assumption.*

**JEL classification:** A1, D1

## ТЕОРИЈА РАЦИОНАЛНОГ ИЗБОРА И СЛУЧАЈНО ПОНАШАЊЕ<sup>3</sup>

### Апстракт

*Према теорији рационалног избора, рационални потрошачи врше избор своје потрошње тако да теже да максимизирају корисност на основу датог буџетског ограничења куповине роба. То ће постићи ако изаберу ону комби-*

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<sup>3</sup> The paper is the result of the research done as part of the project no. 179066 "Improving the Competitiveness of the Public and Private Sector by Networking Competences in the Process of the European Integrations of Serbia", financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

нацију добара која може да подмири њихове потребе и обезбеди максималан ниво корисности. Гари Бекер замишља ирационалне потрошаче како бирају пакет на буџетској линији. Пошто ирационални потрошачи свим пакетима на буџетској криви приписује поједнаку вероватноћу избора, у просеку, се очекује да одаберу пакет која лежи на средини линије. Резултати истраживања у којима већтачки Бекерови актери бирају између више од две робе и у више од две буџет/цена ситуације показују да је проценат актера, чије понашање не потврђује теорију рационалног избора мали. Укључивањем додатних фактора у Бекеров модел случајног понашања, извођачи истраживања могу да минимизирају ове минорне виолације и да избор актера ускладе са теоријом. Поред тога, добијени резултати анализе избора изабраних организација емпиријски показују да се посматрани актери рационално понашају, чиме се потврђује теорија рационалног избора. Све ово, теорију чини неоповргљивом. Пошто се теорија увек може ускладити са чињеницама, било би много продуктивније признати да је теорија проверљива и онда дебатовати о њеној експланаторној вредности у специфичним околностима.

**Кључне речи:** теорија рационалног избора, Бекеров модел случајног понашања, јак аксиом откривених преференција, оповргљивост, максимизација корисности, претпоставка рационалности

## Introduction

The notion of rational choice and rational behaviour plays an important role in the methodology of economic science. Content of economic science consists of descriptions human behaviour and by the notion of human behaviour is included not only individual behaviour, but also the random consequences from the mutual contact of individuals, as well as the effects of different institutional arrangements. In the paper entitled “Economic Approach to Human Behaviour”, Becker (2003) stresses that: “economic theory, as a scientific discipline, differs from the other fields of social knowledge in its approach. On the whole, the essence of the economic approach is comprised from the merged assumptions of maximizing behaviour, market balance, preference stability” (p. 28).

The author of the contemporary definition of the subject of economics, Robbins (1993) stressed that: “economics is a science which studies human behaviour based on the relationships between the aims and the limited means suitable for alternative uses” (p. 19). This leads to the conclusion that, as a science, economics does not study the nature of certain forms of human behaviour, but views and analyses them from the aspect of the comprehensiveness of (all) social links and their inclusion in social structures (Valeryevich, 1997).

In order to explain individual behaviour, economic science uses the rational choice model. The main assumption in the rational choice model is that the behaviour of all economic actors is perfectly rational. The perfect form of rationality is based on the principle of maximization which states the following: the consumer always tends to maximize utility, while the manufacturer tends to maximize profit.

In addition, the rational choice model includes and combines in itself the following propositions:

1. An actor finds himself in a situation in which the quantity of the available resources is limited. For this reason, he cannot satisfy all his own needs and thus must make a choice.
2. The factors which condition this choice are divided into two groups: preferences and constraints. Preferences have the character of the subjective needs of an individual, while constraints represent factors that reduce the ability (skills) of the individual and decrease one's potential for innovation.
3. In making his selection, the economic man is driven by his own tendencies, not the interests of his business partner, and not by the adopted social norms traditions etc.
4. Actors' choice is rational if he chooses option which will provide maximum utility (Hafner & Krstic, 2014).

The aim of the paper is to find whether organizations act rationally, on the basis of collected data about organizations' choice. The results of research empirically show that these subjects behave rationally, and thus rational choice theory is conformed. In the paper, we implemented the results of research, that show behaviour is inconsistent with the rational choice model, in order to explain how can behaviour of individuals fit with the rational choice theory by *ad hoc* introducing the additional hypothesis.

## 1. Rational choice theory

Rational behaviour of individuals is associated with the principle of methodological individualism, according to which all social phenomena can be expressed in the terms of individual action. “Social reality, expressed by cultural values and norms, is the result of previous actions” (Štulhover, 1995, p. 174). In this way, rational choice theory interprets the world as a strategic space of the maximization of individual interests. Social behaviour is primarily rational (emotion is a residual factor), and actors consciously tend to realize their maximum usefulness in an environment that is characterized by limited resources. The choice of the actors' goals depends on their preferences.

Rational choice theorists observe economic actors as individuals who are able to “identify all possible alternatives, paths of action, constraints and to select the optimum alternative” (Golubovic, 2011, p. 166). The choice of alternative is determined by the amount of the collected information. For the model of rational choice, it is assumed that the actors have the optimum amount of information. However, real people do not have all the necessary information, or the information is insufficiently precise and/or unreliable.

Limitations of the model of rational choice caused the emergence of an approach in which the model of rational choice is expanded and explained. In one of them, the stochastic model is applied. In the stochastic model, a selection is made between the number of “lottery tickets”, each of which will promise to bring the amounts  $m_1$ ,  $m_2$  etc. with probabilities  $p_1$ ,  $p_2$  etc. “Lottery Ticket” is the paradigm of the actor's choice, where the outcome of the proceedings is not known with certainty, but in which the participant calculates the probability of various possible outcomes based on his experience and intuition (Boricic, 2005).



The second (another, alternative) approach compares the rational choice model with a model of random behaviour. According to this approach, the behaviour of an individual is random and only if he picks an alternative in his choice set according to some probability distribution on the set, typically a uniform distribution where each alternative in the set has an equal probability of being selected. The point of comparing rational choice with random behaviour is that the latter seems to lack the characteristics of rationality and thus it diverges from rational choice more significantly than from other models of behaviour.

## 2. Random behaviour from Gary Becker to experiments on demand

This section is about the evolution of the interpretation and the use of Becker's model from Becker's original 1962 article to the modern experimental literature on an individual demand. Special attention is paid to (on) the analysis of the relationship between rational choice theory and Becker's model of random behaviour.

### 2.1. Becker's expected random choice

In his model of random behaviour, Gari Becker presents a random consumer as someone who chooses a bundle on the budget line according to the uniform distribution of probability, and compares the implications of random behaviour with the implication of rational choice theory. A random consumer has an equal probability to choose all the bundles on the budget line. On average, we expect them to pick the point that lies in the middle of the budget line and thus spend equal amounts of money on both products (Figure 1).

Suppose that an observed irrational consumer has two types of goods available:  $x$  and  $y$ , and the price of goods  $y$  is reduced. Reducing the price of goods  $y$  will shift the budget constraint to the right. With the budget constraint shift to the right, the slope of the curve (budget constraints) is changed. As the price of goods  $y$  is reducing, and the price of goods  $x$  remains the same, the consumer can replace one unit of goods  $x$  for several units of goods  $y$ . Accordingly, the new budget line (CD) that passes through  $e_0$  is steeper than AB. With the given shift budget constraints and preferences of the consumers, the consumer's (new) expected optimum shifts from  $e_0$  point to point  $e_1$ .



**Figure 1:** Random choice and substitution effect

Source: Moscatia, I., & Tubaro, P. (2011.) Becker random behavior and the as-if defense of rational choice theory in demand analysis. *Journal of Economic Methodology*, 108(2), 110.

According to rational choice theory, the market of rational and mutually independent actors will form a negatively sloped demand curve. The same is true for Becker's model of random behaviour. The larger number of the random consumers in the market, the more likely it is that the unexpected behaviour of consumers will not determine the average market demand, and thus the average market demand will be equal as the individual expected demand. Hence, a market with a large number of random and mutually independent actors will form almost a negatively sloped demand curve, at least on average.

## 2.2. The limitations of Becker's result

Becker's view that both rational and random consumers have a negatively sloped demand curve is based on the assumption that the random choice can be identified with the outcome of random behaviour. It should be emphasized that the random consumer does not always choose the combination of goods lying at the middle of the budget line. In effect, when random choice is reduced to the expected outcome, a random consumer cannot be distinguished from a rational consumer with a Cobb–Douglas utility function, because both of them pick the combination of goods that lies at the middle of the budget line.

When we consider each and every random choice, and rule out the irrational consumers who are totally indifferent between alternatives and thus rational in picking one at random, the convergence between rational and random behaviour evaporates (Moscatia & Tubaro, 2011). Random behaviour no longer implies a negative substitution effect. The compensated budget line CD in Figure 1 shows that there is a probability which equals the ratio between the length of segments  $e_0D$  and CD that the random consumer chooses a bundle to the right of  $e_0$ . Therefore, Becker's model of random behaviour describes the probability that the irrational consumer displays a positive substitution effect which rational choice theory does not explain.

## 2.3. Random behaviour in experiments on individual demand

In experiments on individual demand, prices of bundles are known variables. The participants know their propensity to consume and are able to rank their needs. Having in mind the budget constraint and the intention to accomplish maximum utility, consumers make a choice and form their own demand for goods. The experimenter notes subjects' choices and checks whether they satisfy the Generalized Axiom of Revealed Preference (GARP). According to GARP, “if the subject reveals a preference for bundle  $e_0$  over bundle  $e_j$ , that is, if she chooses  $e_0$  when  $e_j$  is available and costs no more than  $e_0$ , and if she subsequently and directly reveals that she prefers  $e_1$  to  $e_2$ ,  $e_2$  to  $e_3$ , . . . , and  $e_{n-1}$  to  $e_n$ , then the subject cannot choose  $e_n$  when  $e_0$  is available and costs strictly less than  $e_n$ ” (Moscati & Tubaro, 2011, p. 112). The Generalized Axiom of Revealed Preference is a logical implication of rational choice theory in the sense that the choices of a subject could be seen as if they were generated by the maximization of a locally non-satiated utility function if, and only if, they satisfy GARP (Lipton, 2004).

Figure (2a–e) shows a rough geometrical prediction when choices satisfy GARP and when they violate it. In figure 2, the two budget/price situations are represented by the budget lines. The first situation is illustrated by budget line AB. The second situation

is presented (illustrated) by budget line CD. The choices represented in Figure (2a–c, e) satisfy GARP, while the choices in Figure 2 (d) violate it. In situation AB, the participant reveals that he prefers  $e_0$  to  $e_1$ , but in situation CD, he chooses  $e_1$ , although  $e_0$  costs strictly less than  $e_1$  (Figure 2 (d)). In Figure 2 (e) the two-budget/price situations coincide, but the subject chooses  $e_0$  in AB and  $e_1$  in CD. This choice does not violate GARP, since neither of the two bundles costs strictly less than the other.



**Figure 2:** When choices satisfy GARP and when they violate it.

Source: Moscatia, I., Tubaro, P. (2011). Becker random behavior and the as-if defense of rational choice theory in demand analysis. *Journal of Economic Methodology*, 108(2), 112.

However, there are two problems regarding GARP as a test for testing the results of rational choice theory, and confirming or rejecting their justification. Firstly, in order to determine the number of GARP violations in an experiment, we need to define the criterion for demarcation between the choices within and outside the experiment. Experimental studies usually traverse the problem by assuming that the criterion of separability (the criterion for demarcation) is more or less known. Secondly, even if all choices made in the experiment are in accordance with the GARP, this result can be interpreted as an inadequate support of RCT. Indeed, many real participants satisfy GARP. “GARP violations become unlikely when the budget hyperplanes intersect near the axes, and impossible when they intersect on the axes or do not intersect at all” (Moscati & Tubaro, 2011, p. 113).

In statistical terms, one of the essential questions is evaluating the power of a test, that is, the probability of a test to reject the null hypothesis (in our case, rational choice theory) when the rational choice theory is false. To assess the power of GARP as a test, it is necessary to formulate the hypothesis about the decision rule that could have generated choices. It is important to point out that, in modern economic literature, Becker’s model of random behaviour is used as the hypothesis for testing the power of GARP. The aim is to increase the probability of GARP violations by introducing a Becker’s model. “In this case, even if RCT is false and human subjects choose at random, they would rarely violate GARP” (Moscati & Tubaro, 2011, p. 113).

To calculate the probability of GARP violations, it is necessary to overcome another obstacle. It is very difficult to calculate the *a priori* probability of GARP violations when random consumers choose among more than two commodities and in more than two budget/price situations. To traverse this problem, experimenters use Monte Carlo methods to create a population of artificial Becker participants who face the same budget/price situations that the real participants were faced with in the experiment. In each situation, a participant (Becker’s participant) chooses a bundle on the budget line according to the uniform distribution of probability. “His choices over the entire set of budget/price situations may or may not violate GARP” (Moscati & Tubaro, 2011, p. 113). If the percentage of random respondents that violate GARP is small, then the fact that people rarely violate GARP represents little support for rational choice theory, since GARP violations rarely occur due to the objective difficulty of violating GARP under the budget/price combinations of the experiment, but appear due to the rational behaviour of the represents.

The small-scale of GARP violations presents the following problem. In all experiments, choices of certain participants violate GARP. This merely confirms that there are experimental data falsifying rational choice theory. “However, in many cases, GARP violations are rare, in the sense that nearly all subjects satisfied GARP, and not severe, in the sense that the violators were ‘close’ to pass GARP” (Moscatia & Tubaro, 2011, p. 113). However, it can be discussed whether it is really appropriate to fully reject the rational choice theory? By including exogenous factors in the model, as in the case of the stochastic extension of rational choice theory, a’la Fechner would be able to rationalize these minor GARP violations.

Relying on the work of Sidney Afriat (Sydney Afriat), Professor at the Department of Economic Policy, University of Siena, Hal Varian found the Weak Axiom of Revealed Preference, which he called GARP (e). The Weak Axiom of Revealed Preference reflects

the degree of violations through parameters  $e$ , and is called GARP ( $e$ ) (Varian, 1998). The index measures the extent to which the budget constraints should be modified to accommodate for the observed GARP violations.

In order to determine how the reduction of the budget influences choices, we show the situations in which the choices violate GARP. When the budget is reduced in the way that the compensated budget line  $C'D'$  passes through  $e_0$ , then  $e_0$  and  $e_1$  do not violate GARP (Figure 4). The ratio between income  $C'D'$  and income  $CD$  expresses the income reduction needed to let GARP violations disappear, and can be interpreted as an indicator of the money the subject wastes by not choosing rationally.



**Figure 3:** GARP ( $e$ ).

Source: Moscatia, I., Tubaro, P. (2011). Becker random behavior and the as-if defense of rational choice theory in demand analysis. *Journal of Economic Methodology*, 108(2), 114

### 3. Empirical analysis of observed organizations' choice

Rational choice theory is based on methodological individualism. “The basis of methodological individualism is the idea that the properties of the system are judged on the basis of the properties of its elements” (Kitanovic, Golubovic & Petrovic, 2009, p. 40). Methodological individualism does not deny the existence of complex social phenomena, such as organizations. These phenomena are a social reality, but according to the supporters of this philosophical school, societies exist only as epiphenomena that emerge from people's minds.

The representatives of this philosophical school see the organization as theoretically postulated subjects trying to accomplish the optimum value of the goal function. Depending on the nature of the problem, the optimum will be considered the maximum or minimal value (the goal function). In the domain of consumption, the goal function of participants (individuals, organizations, etc.) is related to maximizing utility. If we have a list of goods bought by an organization when faced with different prices, we can apply the strong axiom of revealed preferences in order to determine whether the observed organizations choose the combination of goods which realizes the optimum (maximum) value of the goal function.

We have chosen three organizations (Health Center, Faculty of Economics and Faculty of Sciences and Mathematics, University of Nis) and defined the hypothesis according to which the observed organizations accomplish the optimum (maximum)

value of the goal function. The subject of the analysis represents a combination of goods that the organizations buy at different prices. The following goods were used for the analysis of the observed organizations' choice:

1. Health Center: gloves, surgical rubbers, systems for infusion and needles (Table 1).
2. Faculty of Economics: copy paper, writing paper with a rectangular pattern, envelopes and marker (Table 2).
3. Faculty of Sciences and Mathematics: paper printing paper, marker, envelopes and folder (Table 3)

**Table 1:** The consumption of the Health Centre in Niš.

Observations	$p_1$	$p_2$	$p_3$	$p_4$	$x_1$	$x_2$	$x_3$	$x_4$
1	2.06	9.5	3.7	2.5	500000	42000	1500	250000
2	3.07	12.59	3.38	2.5	500000	40000	1008	500000
3	5.2	16.4	3.5	1.55	456000	42200	1200	300000
4	5.2	16.4	3.5	1.55	456000	42200	1200	300000

Source: Procurement Department of the Health Centre.

**Table 2:** The consumption of Faculty of Economics in Niš.

Observations	$p_1$	$p_2$	$p_3$	$p_4$	$x_1$	$x_2$	$x_3$	$x_4$
1	268.93	417.60	2.58	6.13	200	1	200	100
2	326.40	394.50	3.00	18.00	50	3	150	200
3	326.4	405.7	4.65	17.82	50	2	200	100
4	326.40	298.6	4.65	18.82	100	5	250	150

Source: The Accounting of Faculty of Economics.

**Table 3:** The consumption of Faculty of Sciences and Mathematics.

Observations	$p_1$	$p_2$	$p_3$	$p_4$	$x_1$	$x_2$	$x_3$	$x_4$
1	282.55	20	10	2.15	200	50	1000	2000
2	262.47	18	8	3.15	400	30	1500	1500
3	247.86	15	8	1.85	420	40	2000	1800
4	312.26	25	7	2	180	20	3000	2000

Source: The Accounting of Faculty of Sciences and Mathematics.

**Table 5:** Price of each bundle in each set price - the case of Health Center

		Bundles			
		1	2	3	4
Prices	1	<b>2059550</b>	2663730	2094700	2094700
	2	2693850*	<b>3292007</b>	2685274*	2685274*
	3	3681550	4034528	<b>3532480</b>	3532480
	4	3681550	4034528	3532480	<b>3532480</b>

On the basis of data from Table 1, we can calculate how much the Health Center pays when it buys each bundle for each different set price. For example, the data in Table 5 (third row, first column), shows how much money this health organizations must spend in the third set of the price in order to buy the first combination of goods.

The diagonal data in Table 5 show how much the organization spends for each choice. The data in the row are used to determine how much money the Health Center

spends to buy a different combination of goods. By comparing the data in Table 5, it can be seen whether, say, the Health Center prefers bundle 2 to bundle 1, and we find whether the data in row 2, column 1 (how much money the organization needs to spend in the second set price to buy the first combination of goods) is less than the data in row 2, column 2 (how much money the organization spent in the second set price to buy the second combination of goods). In this case, the bundle was available when the Health Center bought bundle 2, which means that bundle 2 is revealed to be preferred to bundle 1. Therefore, in Table 5, we put a star in row 2, column 1, and the data in row  $s$ , column  $t$ , only if the number in this field is smaller than the number in row  $s$ .

This table can be used to determine the violation of GARP, which is violated only if the stars lie in row  $s$ , column  $t$ , and in row  $s$ , column  $t$  (Varian, 2014). Since Table 5 shows no situation where the stars lie in row  $t$ , column  $s$ , and in row  $s$ , column  $t$ , we know that the observations are in line with rational choice theory. They were reached by the optimizing entity that always chooses the best things they can afford.

#### 4. Limitations of rational choice theory

The results of the analysis of the behaviour of selected organizations show that rational choice theory is true. Defending his academic position from the “economic imperialism” of rational choice theory, many scientists have attempted falsification, claiming that the utility maximization assumption and the rationality assumption are not “grounded” in objective reality. Such defense attempts against the invasion of rational choice theory are methodologically flawed for the following reasons.

Firstly, the utility maximization assumption is not falsifiable. Writing about utility maximization, Samuelson (1937) stressed, “all types of observable behaviour might conceivably result from such an assumption” (p. 156). Since the utility cannot be objectively observed, all kinds of behaviour can be explained in terms of the idea, without fear of refutation. Sidney Winter and Lawrence Boland also emphasize that no evidence can refute the theory that agents are maximizing some hidden or unknown variable such as utility (Winter, 1964).

The second reason for the inability to empirically test rational choice theory is reflected in the fact that the results of the participants’ choices can always fit the utility maximization assumption and rational choice theory. In all researches (Hodgson, 2012), the choices of certain participants violate GARP. This only shows that there are experimental data that falsify rational choice theory. By including additional factors in the model, experimenters could rationalize these minor GARP violations and coordinate the participants’ choices with rational choice theory.

If experiments show that a certain percentage of respondents choose the option with a lower expected value, the experimenters can always provide evidence that is consistent with the utility maximization assumption by introducing additional variables. Assume that a respondent is faced with a choice between \$10 with certainty, and \$1,000 with a probability of 2 per cent. The results of the experiment indicate that there are respondents who choose the option of \$10, despite the fact that the expected value of the second option is higher (Slovic & Lichtenstein, 1983). These results do not falsify rational choice theory, once we accept that the expected utility is not necessarily measured

in terms of the monetary payoffs. If we assume an added disutility associated with a risky and low probability choice, then the rational choice theory that indicates that people are maximizing their utility is not falsified by this experiment. “A risk-averse participant may not maximize expected monetary value, but may still be maximizing expected utility. With appropriate manipulation, the choice of \$10 can be made to be perfectly consistent with the maximization of the expected utility, instead of the maximization of the expected monetary value of the payoff” (Hodgson, 2013, p. 97).

The idea that the utility maximization cannot be observed in real life was confirmed by the results of the following research. The results of the experiment clearly indicate that most respondents prefer option *A* with an expected value of \$4 to option *B* with an expected value of \$5. Since most respondents prefer option *A* with an expected value of \$4 to option *B* with an expected value of \$5, then it can be assumed that “there are additional attributes of option *A* (for example, we may enjoy losing or gaining pleasure from seeing others win) that are consistent with the view that it yields higher overall expected utility for the subject” (Hodgson, 2012, p. 97). Since we can never show that some variables that cannot be directly observed (such as utility) do not maximize, then rational choice theory is resistant to every empirical “impact”.

The key problem with the rationality assumption is that it is so general that it can explain everything. Consequently, the explanatory power of rational choice theory is significantly reduced in specific cases. For example, rational choice theory cannot explain the positive substitution effect or probability that the consumer chooses a point below budget line *CD* that is located to the right of  $e_0$  (Figure 1). Each point below the budget line is suboptimal. If the consumer chooses these points, then his behaviour is irrational. However, in his article, entitled “Irrational Behaviour and Economic Theory”, Becker shows how the choice of individuals who do not behave rationally leads to economic outcomes “as if” they behave rationally (Becker, 1962). When alcohol prices increase, an alcoholic reduces the consumption of alcohol. This is due to the income effect or budget constraint that exists regardless of whether someone is drunk or not. In this case, the reduction is not the result of rational behaviour or the substitution of the consumption of alcohol with something else.

## Conclusion

As critics question the validity rational choice theory with the unfounded claim that its basic postulates are falsified, the proponents erroneously claim that they have been rigorously confirmed. In his papers, Hirshleifer (1985) shows that: “we must reject rational choice theory to the extent that it violates the evidence about human behavior” (p. 59). However, this view is due to a methodological misunderstanding. No evidence can refute rational choice theory. There is no evidence that does not fit into any version of the theory of rationality. The experimental evidence about ranking preferences and cognitive ‘anomalies’ forms a new and empirically compatible theory, but it does not, in principle, refute the old version based on rational choice.

Certain authors, such as Eichner, have based their criticism on “an untenable and empiricist view of science that denies that non-falsifiable and ‘metaphysical’ assumptions are essential to any science” (Hodgson, 2012, p. 102). In fact, all sciences depend upon the propositions that cannot be tested. No theory can be composed entirely of empirically



confirmed elements. The concepts, which are previously created, make sense of the fact. All concepts cannot be empirically tested. Any ‘test’ relies on prior concepts or categories. As a result, all sciences extensively use some untestable and metaphysical assumptions. For this reason, the empiricist criticism of rational choice theory is untenable. In practice, the denial of the essential role of non-falsifiable assumptions in theory disables the independent elaboration of theoretical constructions. Since it is practically impossible to test all assumptions, any theoretical construction cannot be empirically tested.

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## WAGES AND CORPORATE DOMINANCE

### Abstract

*As wages are the primary means of income for the majority of people in every country in the world, understanding the reasons for differences in wages is important for human welfare. One potential source of differences in wages between countries is differences in the degree of corporate dominance. This paper proposes that average country wages are negatively related to the extent of corporate dominance. The proposition is tested using cross country regression analysis. The results show that greater corporate dominance reduces average national wages when adjusting for the level of economic development and other relevant variables.*

**Key words:** wages, corporate dominance, regression analysis

**JEL classification:** J310, L1

## ПЛАТЕ И КОРПОРАТИВНА ДОМИНАЦИЈА

### Апстракт

*Пошто су плате главни извор прихода за већину људи у свакој земљи на свету, разумевање разлога за разлике у платама је важно за људску добробит. Један од потенцијалних извора разлика у платама између земаља је разлика у степену корпоративне доминације. У раду се претпоставља да су просечне плате негативно повезане са обимом корпоративне доминације. Претпоставка је тестирана помоћу регресионе анализе између земаља. Резултати показују да већа корпоративна доминација смањује просечне националне зараде приликом прилагођавања нивоа економског развоја и других релевантних варијабли.*

**Кључне речи:** плате, корпоративна доминација, регресиона анализа

## Introduction

With increasing globalization, corporate dominance of markets appears to be becoming greater and greater. Corporate dominance of product and labor markets, especially in the presence of weak and declining union strength and labor power, can be expected to lower wages and labor income on both an economic and political basis. Economically, monopolistic and monopolistic power, strictly from a neoclassical

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economics vantage point, tends to enhance profit's share of total economic income at the expense of labor's share. Politically, greater power in corporate hands, through increased corporate lobbying or other means, is apt to lead to undue corporate influence over politicians and, for that matter, over the entire political process. In general, greater corporate dominance of markets is apt to change political attitudes, dispositions, ideas, arguments, rationalizations, and even the political agendas themselves, making them more pro corporation and less concerned with labor issues, such as fair wages and adequate living standards for ordinary men and women. Greater corporate political influence tends to result in reduced corporate business regulation, even when the regulation is appropriate on equity and efficiency grounds, and to lax administration and enforcement of existing business regulations.

Economics is always concerned with incentives and for establishing and maintaining appropriate incentives systems-incentives systems that provide higher levels of economic efficiency, technological progress, and economic growth. For the effective operation of the private sector, self-interest needs to be aligned with social interest. The government needs to set the basic framework and the ground rules for this to occur. It has to have the desire and will to do so. Greater corporate dominance is likely to lead to greater and greater misalignment between corporate pursuit of profits and the welfare of society as a whole. It makes it more and more difficult for the government to bring the two into line, even under the assumption that government still wants to, and diminishes the government desire to do so.

The purpose of this paper is to quantitatively test the theoretical hypothesis that greater corporate dominance lowers wages, and, if the hypothesis proves to be correct, to get some feel for the magnitude of the effect.

The paper consists of five sections. The first section touches on some of the recent relevant literature with regard to wages. The second sections lay out a simple model of cross country wage determination with corporate dominance playing the central part or the key role. The third section discusses the sources of the measures of the various variables used in the actual empirical work. The fourth section presents and analyzes the results of cross country regressions of wages on corporate dominance. The fifth and final section rounds the paper out with some concluding comments and implications.

## Brief Literature Review

Ivrendi, Guloglu and Yetkiner, hypothesize that divergence in factor endowment between countries is the source of differences in real wages between countries (Ivrendi, Guloglu & Yetkiner, 2014). Employing a panel data set for twenty six OECD countries in their regression analysis, they find evidence that factor endowment in the form of productivity, capital, labor stock, together with human capital and unemployment, explain most of the variation in real wages in their sample, with each of the individual variables statistically significant and having their appropriate signs.

It may be the case that it is not differences in human skill, human capital that accounts for the bulk of variation in worker earnings that exists across countries, but rather diversity in rewards to skills (the price of skills). Using three wage sets of data on countries from around the world, Rosenzweig estimates skill prices for countries

(Rosenzweig, 2010). He finds that skill prices differ markedly between countries, and that income inequality between countries is primarily due to different rewards for the same skills, and not due to differences in human capital as predicted by the neoclassical Mincer theory.

Hirsch reviews some of his and others past research on wages and wage determination in his 2007 presidential address to the Southern Economic Association (Hirsch, 2008). Although he maintains that the theory of one wage is the appropriate and useful starting point for looking at wages, it is heterogeneity in wages that he considers to be interesting to study and explain. He contends that differences in wages between cities and metropolitan areas are likely to disappear after adjusting for differences in cost of living and differences in amenities between different areas. He feels it is possible that government regulation in the product markets can lead to rent sharing with workers in industries with strong unions, as he believes occurred, at one point in time, in the trucking industry in the United States. For the U.S. as a whole, he finds that, although a large part of the variation in wage gaps can be explained by the standard neoclassical Mincer model, that the wage gaps unexplained by the standard neoclassical Mincer model may be even greater after adjusting for measuring errors, from, for example, such things as earnings imputations in the data.

Heinze and Wolf study the effect of competition, unionization, and workers councils, on the wage gap between men and woman within German firms (Heinze & Wolf ,2010). Looking at a pooled sample of German firms ranging from 1148 to 1852 establishments for the years 1997-2004, their regressions show that relative firm size has a significant positive effect on the wage gap between men and women, after adjusting for human capital characteristics, that is to say, that reduced competition leads to a greater gender wage gap, while collective bargaining agreements and worker councils, on the other hand, decrease the gender wage gap.

Du Caju, Katay, Lamo, Nicolitsas, and Poelhekke investigate inter-industry wage differentials for eight European Union countries for 1995 and 2002 using data from the European Structure of Earnings Survey (Du Caju, Katay, Lamo, Nicolitsas, Poelhekke, 2010). Their data suggests that substantial inter-industry wage differentials still exist even after adjusting for workforce and job characteristics. These conditional inter-industry wage differentials cannot be explained by unobserved quality differences in workers. However, they do appear to be determined by differences in the rents and rental sharing between industries, with the amount of rents depending on industry structure, and, the extent of rental sharing, depending on the collective bargaining strength of labor.

Du Caju, Rycx and Tojerow combine data from the Structure of Earnings Survey, that contains information on firm and individual characteristics, with the Structure of Business that contains firm financial information, to look at wages in Belgium for the years 1999-2005 (Du Caju, Rycx & Tojerow, 2011). In their empirical analysis, they find that sizable wage differentials between sectors continue to exist after adjusting for numerous individual and firm characteristics, indicating that non- competitive forces are operating in wage determination; that firm's ability to pay, measured in terms of profits per worker, is a positive and significant factor for wages, suggesting that rent sharing between firms and workers may be one of the non-competitive aspects in wage determination; and that wage differentials between sectors still exist even after taking account of profits per worker of firms, suggesting that there are other dynamics operating to determine wages besides standard neoclassical forces and rental sharing.

Fairris and Jonasson look for potential causes of intra-industry wage differences employing data on establishments from an original survey of several low wage industries in Los Angeles for 2002 (Fairris & Jonasson, 2008). Using average establishment wages and occupational starting wages as alternative dependent variables, they run regressions on a sample of 190 establishments on a fairly sizable set of explanatory variables. Their regressions provide some evidence supporting a role for rental share and efficiency wages in explaining intra-industry wage differentials, but lend little support for the theory of compensating differences.

Freguglia and Menezes-Filho look at the sources for inter-regional wage differentials in Brazil using data between 1995 and 2002 (Freguglia & Menezes-Filho, 2012). They find that most of the differentials between Brazilian states can be attributed to differences in the average ability of workers.

## Formalized Cross Country Wage Determination Model

The model consists of one equation and a single partial derivative. The single equation model is as follows:

$$W=g(D, C) \quad \delta W/\delta D < 0$$

In the model  $W$  stands for average country wages,  $D$  stands for corporate market dominance, and  $C$  is a set of other determinants of wages that act as control variables.

The model's focus is on corporate dominance as a potential determinant of wages. As shown by the negative partial derivative between wages and corporate dominance, it is theorized that wages are negatively related to corporate dominance, so that, an increase in corporate dominance is predicted to lead to a reduction in wages.

What has happened recently with the advance of globalization is the evolution of a new relationship between capital and labor that favors capital. Capital, especially concentrated capital, is acquiring more and more power. At one time, at least in the developed countries, when corporations were at most national in size and scope, there existed, with strong national unions, a fairly high level of countervailing power between capital and labor. Now, however, with capital, but not unions, successfully going international, and with the recent vogue in deregulation, free market ideology, and anti-union sentiment, this is no longer the case. The balance of power is becoming tilted more and more in favor of big business.

Besides corporate market dominance, three other variables are considered as potential determinants of wages across countries.

The first control variable, the first argument in the wage determination model other than corporate dominance, is the level of economic development. Wages are predicted to be positively related to the level of economic development. Standard neoclassical theory predicts that wages move in concert with labor productivity. The difference in labor productivity between the most highly developed countries and the least developed countries is enormous. Labor productivity is higher at higher levels of economic development for a large number of reasons. These include differences in the quantity and the quality of the physical and human capital stocks, and differences in the quantity and quality of infrastructure.

The second control variable is government size. Wages are predicted to be positively related to the size of government for several reasons. First, the government is a source of employment. It employs substantial numbers of people in the military, in education, in the government bureaucracy itself, and in other areas. Second, the government is the primary funder of basic research. Basic research is the essential foundation for all research and development, and, research and development is the key driver of technological change and productivity improvement. Third, the government provides traditional public goods and services such as, infrastructure, law and order, educational systems, and defense that are necessary for the operation of an economy.

The third and final control variable is the share of country income going to research and development. Naturally, the greater the devotion, the greater the commitment, of society's resources to R&D the higher wages are likely to be. Higher labor productivity spells higher wages. Investment in R&D creates higher labor productivity, both in terms of building greater human capital among those engaged in R&D, and, in terms of the enhanced productivity that results from the products and services created through R&D.

In sum, four variables are considered as potential determinants of wages. They are corporate dominance, the level of economic development, the size of the government, and the share of income going to R&D. While corporate dominance, the key variable of interest is theoretically predicted to be negatively related to wages, the other three variables are expected to be positively related to wages.

## Data Sources for the Variables

The average wages for countries are downloaded from Wikipedia (Wikipedia, 2014). Their source is the United Nation's International Labor Organization. The data are monthly average wages in purchasing power parity dollars for 2009.

The measure of the level of economic development is GDP per capita for 2010. The numbers come from the World Bank (World Bank, 2014).

Corporate dominance is quantified by adjusting the index of corporate dominance from 2009 through 2010 of the World Economic Forum so that higher values show greater corporate dominance (World Economic Forum, 2011). The World Economic forum's extent of market dominance index is based on answers to the survey question, "How would you characterize corporate activity in your country?". The range of possible answers are from one, dominated by a few business groups, to seven, spread among many firms. Given the World Economic Forum's corporate dominance index is inverted, for ease of understanding, the corporate dominance index used here is eight minus the World Economic Forum's corporate dominance index.

## The Empirical Results

Table 1 shows the results of cross country regressions average wages on corporate market dominance and the three control variables. The table shows the results for four different regressions, one in which corporate dominance is the only explanatory variable,



and three others in which corporate dominance is accompanied by one or more of the three control variables, namely, the level of economic development, the size of the government, and the share of R&D expenditure.

*Table 1: Cross country regressions of average wages on corporate dominance and other variables*

	(1)	(2)	(3)	(4)
CONSTANT	4656.11 (11.03) *	2843.26 (5.15) *	779.00 (1.39)	292.49 (.63)
DOMINANCE	-764.64 (-7.51) *	-450.17 (-3.92) *	-314.18 (-3.08) *	-169.78 (-2.22) **
GDPPC		.0215 (4.45) *	.0225 (5.79) *	.0389 (9.72) *
GOVTOGDP			85.97 (6.04) *	47.03 (3.71) *
R&D TOGDP				167.29 (2.65) **
RSQ	.453	.574	.729	.893
N	70	68	68	51

The table is constructed in the following way. It is composed of five columns. The first column shows the potential explanatory variables, the set of variables eligible to enter the equations. The second, third, fourth, and fifth columns each show the results of a single regression equation. The equations are numbered in the first row. If and when a variable enters an equation, the top value in the body of the table corresponding to the row containing the variable and the column of the equation in which the variable enters is the estimated coefficient for that variable in that equation. The individual t-statistic, in parentheses, is right below the estimated coefficient. Variables that are significant at the one percent level of significance or better in an equation are marked with a single asterisk beneath the individual t-statistics. Those that are significant at the five percent level or better are labeled with two asterisks. The last two rows show, respectively, the R-squared values (RSQ), followed by the sample size (N), the number of countries entering an equation.

The results support the idea that greater corporate dominance is detrimental to wages. The corporate dominance index (DOMINANCE) is negative and significant at the one percent level of significance or better in three of the four equations in table I (equations (1)-(3)), and is negative and significant at the five percent level of significance in the single remaining equation (equation (4)). Thus, whether corporate dominance is used alone as the sole explanatory variable, as in equation one, or in combination with the level of economic development and other explanatory variables, as in equations two, three, and four, corporate dominance has a negative and statistically significant effect on wages.

Furthermore, the magnitude of the impact of corporate dominance appears to be far from insubstantial. Looking at the estimated coefficient on corporate dominance in the

fourth equation, the lowest estimated coefficient on corporate dominance for all the four equations in table 1, implies that a one point increase in corporate dominance, which can potentially vary between one and seven, leads to around a one hundred seventy dollar decrease in average wages in a country. If anything, the estimated coefficient in equation four probably understates the impact of corporate dominance on wages, as there may be some multicollinearity in equation four, with the direct effect of corporate dominance on wages being watered down by its potential indirect effect on wages working through corporate dominance's potential negative effect on R&D expenditure.

The explanatory power of corporate dominance is also quite strong, especially for a cross section. When corporate dominance is used alone as an independent variable (Equation (1)), it explains over forty five percent of the total variation in average wages across countries, and, when combined with the other three variables (equation (4)), explains close to ninety percent of the cross country variation in average wages.

All of the other three variables also behave quite nicely. The measure of economic development, GDP per capita (GDPPC), just as theoretically expected, appears to be a positive force for wages. The variable is positive and significant at the one percent level or better in the three equations in which it appears (equations (2)-(4)).

The results suggest that the bigger government size is favorable for country wages. The government size variable (GOVTTOGDP) is positive and significant in equations three and four, the only two equations that it enters.

Lastly, the results show that research and development is a positive driver of wages. In equation four, the sole equation in which it appears, the percentage of R&D expenditure to GDP (R&D TO GDP) is positive and significant at the five percent level of significance.

## Conclusion

Identifying a determinant of wages and its relationship with wages is of no small import. The level of wages really matters for the well-being of most members of society. Along with employment, adequate wages are necessary, are essential, for most members of a nation to attain a decent standard of living.

Wages constitute the mainstay of income for ordinary citizens, and can thus be viewed as the back bone or as the core component of national welfare.

The cross country empirical analysis of this paper strongly suggests that greater corporate dominance is associated with reduced wages for workers. Whether or not corporate dominance is used alone as the sole explanatory variable in a regression, or in regressions that control for other variables, corporate dominance proves to have a statistically consequential negative effect on wages.

The obvious policy implication of the analysis is that an important way by which a government can increase average wages in a country is to design policies that reduce corporate power and corporate dominance of markets. Markets need to be regulated so that corporations do not acquire large, unwarranted, market shares. Not only is this likely to be good for wages, but it probably will also be good for competition, and for economic efficiency. As small firms are often innovators and small firm growth is a major employment driver, it is also likely to be favorable for employment and technical progress.

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## THE NECESSITY OF ELIMINATING CLASSICAL CONCEPTS AND INTRODUCTION OF NEW CONCEPTS INTO STRATEGIC MANAGEMENT AND BUSINESS

### Abstract

*The fact is that even today in the management of developed countries they apply the concept of strategy defined in the eighties by Michelle Porter. This concept is based on both classic and mechanistic basis, i.e. determinism and the organization chart that was effective in terms of small changes and a high degree of certainty in management decisions. Therefore, the fact that Porter's concept of strategy had not changed for more than three decades and is as such still applied and analyzed at high business schools in the West is reason enough for this concept to deteriorate leading to the final outcome - death .*

*With evident turbulent and radical changes, Porter's concept of strategy is inefficient and it must be replaced with new approaches and concepts based on biological-medical grounds, which are natural, and hence more objective to formulate quality strategy and strategic decisions. It turns out that it is necessary to redefine the postulates of classic strategies and set a new basis, i.e. new strategy for the development and implementation of strategies, and the introduction of new, primarily adaptive, flexible, and strategies shaping the environment, which are relatively unknown today, or neglected.*

*This paper aims to highlight the necessity of abandoning the classic strategy in strategic management and the necessity of introducing those concepts that take into account volatility and the high level of uncertainty that exists today and will in the future be even greater.*

**Keywords:** *Classical strategies, new concepts of strategy, strategy problems*

**JEL classification:** M2, M20, M21

## НУЖНОСТ ЕЛИМИНАЦИЈА КЛАСИЧНИХ И УВОЂЕЊЕ НОВИХ КОНЦЕПАТА У СТРАТЕШКОМ МЕНАЏМЕНТУ И БИЗНИСУ

*Анстракт*

*Чињеница је да се и данас у менаџменту развијених земаља примењује концепт стратегије коју је поставио осамдесетих година прошлог века*

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*Мишел Портер. Овај концепт се заснива на класичним и механистичким основама, односно на детерминизму и шематизму и био је ефикасан у условима малих промена и високог степена извесности управљачких одлука. Самим тим, што се Портеров концепт стратегије није мењао више од три деценије и што се као такав данас примењује и изучава на високим пословним школама (хигхт бусинес сцхоол) Запада, је довољан разлог за његово пропадање које доводи до коначног исхода, а то је смрт.*

*У условима турбулентних и радикалних промена, Портеров концепт стратегије је неефикасан и нужно је исти заменити са новим приступима, односно концептима који се заснивају на биологистичко-медицинским основама, који су природни, а тиме и објективнији за формулисање квалитетних стратегија и стратегијских одлука. Показује се да је нужно редефинисати постулате класичне стратегије и поставити нове основе, односно нову стратегију за израду и имплементацију стратегије, као и увођење нових, а пре свега адаптивних, флексибилних и стратегија обликовања окружења, које су данас релативно непознате, или запостављене.*

*Рад има за циљ да укаже на нужност напуштања класичних стратегија у стратегијском менаџменту и неопходност увођења оних концепата који уважавају турбулентност и висок ниво неизвесности који данас постоји и који ће у будућности бити још и већи.*

**Кључне речи:** *Класична стратегија, нови концепти стратегије, проблеми стратегије.*

## 1. Is strategy science?

Studies show that the strategy is several thousand years old. Strategy is mentioned both in war doctrines and in conducts of wars. In each new time dimension man tried to increase effectiveness in conflicts between different tribes, using effective tools and weapons, different concepts of warfare, etc. As a rule, every new weapon had changed the concept of waging a war, thus increasing the success in conquering territory, or enslave other tribes or nations. When slaves were replaced with professional armies this gave military strategy a whole new quality.

No matter when strategy is created and where it is being implemented, strategy is always a set of integrated decisions, actions and plans, whose task is to achieve the defined objectives of the organization or society. It is the result of the analysis and evaluation of organizational performance and their compliance with the opportunities and threats in the environment. Therefore, strategy itself is not a goal, nor is strategy used to define objectives, as it is often stated in the literature, but it is an instrument for achieving the defined objectives.

Classic theorists and general management theory in the sixties found that strategic management is indeed a scientific discipline of its own, and that claim was further developed in the seventies and eighties. View that strategy is interdisciplinary science prevails in strategic management today.

Further analysis shows that we might rightfully pose the following question: is strategy science at all?

Experience has shown that whenever a certain phenomenon was widely spoken about without adequate arguments there invariably existed a problem in the scientific

explanation of these phenomena. Therefore, conclusions without scientific verification can be misleading, i.e. existing concepts may turn into stereotypes and laws that are not being addressed.

Too many citations and quotation by a famous Chinese strategist Sun Tzu show that many authors tend to mechanically transfer certain laws of war strategy into business sphere, and beyond. For example, D. Cawood talks about military strategy in business emphasizing that principles of military strategy can be used in the conduct of market struggle, especially in a market environment where modern economic activity may be compared to a battlefield where every day a large number of companies disappear, leaving behind greater havoc than in a conventional war. (Millson & Wilemon p.657) We must keep in mind that military strategy itself has changed rendering its implementation impossible, not only because we face a fundamentally changed environment, but also because war strategy is aimed at the 'waging warfare with modern weapons, without participation of the life force, at a distance, where many elements of the classic military strategy do not work, or are marginalized.

### ***1.1. Arguments that support the claim that strategy is science***

The fact is that modern management is designed on classic basis which was designed by Western theorists of organization and management. Its features include: determinism, schematism and hierarchy, i.e. relations of dominance and subordination. In this concept, the dominant role was played by material resources, while human potential was neglected and considered to be a mere 'machine tag.' In the second half of the twentieth century classic management provided satisfactory results and was the most perfect mode of management of organizations. All things created on earth in the past five decades are more or less results of this and similar types of management. It is still present in traditional organizations and traditional industries.

Porter's concept of strategy originated in the mid eighties in the framework of classical management and had its characteristic features. From this distance, this concept is not old, but technical, technological, organizational, economic and socio-political environment and changes had made it obsolete, thus questioning its applicability in the form set by Porter. It turns out that now there are no gradual and predictable changes, no industrial organization, the number of workers classified as 'blue coats' is drastically reduced with tendency to completely disappear because there will be no jobs for them to perform. Today we face the knowledge society dominated by intellectual organizations, or 'white coats' and 'golden collars'. Instead of material factors, knowledge has become the most important potential. In a word, there have been radical and fundamental changes that have significantly changed the design of the organization and management.

The claim that strategy is science is based on the indisputable fact that it is taught, as well as other sciences, in reputable high business schools around the world, for more than five decades now. A significant number of colleges, institutes, faculties in the field of business and management had been created as early as the sixties and their curricula also includes strategy and strategic management in various fields. Further, a significant number of scientific papers have been published in this field in recognized international journals, and there are scientific positions in this field, too. Clausewitz, one of the world-renowned experts on strategy, strategy is 'science because it aims, just like all other sciences, to learn things, i.e. to process knowledge necessary to conduct the fight.' However, he further believes that strategy must be followed by skill, i.e. it is not enough to know the principles of strategy, it is necessary to have the skills to implement it.

From the above it can be concluded that strategy, like other sciences, has its own subject,

the methodology and scientific apparatus for drawing conclusions and principles that should not be questioned. Its principles are derived from warfare, or from experiments in different organizations. For example, through the chronographer Taylor used to measure performance, and on that basis he would set norms for certain jobs and tasks. Based on this, he would plan certain individual stages of the production process. The last and most important experiment that was conducted in the field of management and motivation is the so-called Hawthorn's experiment conducted at the Western Electric Company in Chicago in the twenties and thirties by E. Mayo and associates. This experiment was related to the study of working conditions (microclimate, noise, lighting, and other factors) on the productivity of labor, and whether and what extent supervision contributes to work performance. This experiment was a prelude to the emergence of neoclassical theory of organization and management, which radically changed the organization. On the basis of these studies the so-called Hawthorne's effect was formulated, which boils down to the following: isolated individuals can increase their impact more through increased attention and inter-personal respect than through the introduction of tests and controls that had been dominant up to then (Barton, & Martin, p.50). Later concepts of management, such as the X, Y, Z, theories of motivation and organizational building, are but modalities of the Hawthorne experiment. Business colleges around the world teach the elements of strategies, such as operational art, and tactics, working with people, morality, etc.

Bearing this in mind, strategy was further diversified by different criteria and was often analyzed through various sciences such as military science, industry, agriculture, tourism, services, etc. Strategy was also treated from the national level, level of organizational systems, and from the standpoint of individual functional areas, therefore we have national strategy, corporate, functional strategy such as production, finance, marketing or development strategy, quality strategy, etc. That is how strategy has become not only science, but a multidisciplinary science. Strategy has been using the achievements and findings of an overall strategy, but each branch strategy, corporate or functional strategy treated and explored certain specifics.

Apparently, strategy is applied activity because it points out the ways how to achieve goals. Large multinational companies have strategic managers with different names: the president of the company, Managing Director, Executive Director, Board of Directors, strategic manager, top management, etc. They use techniques and knowledge they have acquired through the formal system of business education, as well as through practice and experience gained in the management of business and other organizations. In the last decade analyses have shown that companies with strategy and educated strategic managers had better business results than those without them.

This general effort to point out that strategy is science denied in fact the opinion that strategy is dominated by skill. If you accept this point of view, strategists would be trained in a different way, i.e. by practicing, training, simulation and tests based on real situations.

### ***1.2. Arguments that support the claim that strategy is not science***

In the current theoretical and practical flood of management concepts, it is difficult to put strategy as a science into question, and every paper on this topic is indeed a risky undertaking. However, the strength of facts and reasoning by itself can lead into doubt and dilemma as to whether and to what extent strategy is science, just how much skill it contains, i.e. whether strategy is primarily art and only then science, which is a dilemma for Clausewitz, too.

The first argument that strategy is not science is that its laws are not based on scientific grounds, which are scientifically validated, as in other sciences. In strategy-

creating effort strategic management does not dispose of enough scientifically verified information. Strategy is the result of strategic thinking, which may be more or less, or completely subjective, thus losing objectivity and scientific basis for making strategic decisions. It turns out that strategy is a mental process, partly based on individual perceptions.

Thus, strategy is accompanied by a high level of subjectivity in the interpretation of the same facts and the execution of final conclusions, or legality of the same, which is not the case with other, primarily the natural sciences. For example, in medical science strategic decisions that determine the life and death of patients are arrived at based on confirmed and scientifically proven facts, standards and procedures that do not leave room for different interpretations. The outcome of these and other decisions is predictable. If we apply the same methodology of treatment with the same drugs and therapeutic agents to patients with the same symptoms and diagnosis, it is very likely that we will get the same result. Any doctor must justify his every decision and base it on the experimentally confirmed facts and scientifically verified procedures and standards. Those are: laboratory analysis, X-rays, graphics, and estimation of the quantification. In the case of complex problems, they are obliged to convene a council, where, from the perspective of holistic concepts, they evaluate the outcomes of specific interventions and their effects on the whole organism (Walshe, & Undall, 2001).

The situation is the same when it comes to technical science. If we are to make a project of a bridge of certain capacity, with a high level of accuracy we can calculate the necessary resources, such as compressive strength, section steel profiles and fittings, etc. Data and standards leave no room for different interpretations or different conclusions. If you fail to comply with these standards, the capacity of the bridge becomes problematic.

However, with strategy this is not the case. If we apply the same strategy to solve the same problems in the organizations of the same activities with the same organic composition of capital, the same number of employees and the same value of assets, we shall end up with different, and often completely opposite results. In one case, the same strategy can produce satisfactory, while in other cases negative effects, which brings into question its scientificity.

Also, experience shows that the strategies that had been proven successful in the past, in another time dimension may be unsuccessful, and may even produce damage to the company, which is rare in other sciences, primarily in natural sciences. This leads us to the conclusion that in strategy there is a problem of scientific value, and that it suffers from the problem of objectivity in drawing conclusions and laws.

Another argument that strategy is not science is the fact that there is no clear and scientifically verified methodology in its formulation and implementation, and there is no strategy for the development of strategy. The question is whether it is possible at all to establish it in the first place. Because of the above, every organization formulates its own strategy, which is the result of strategic management's skills to evaluate environmental factors and their own internal forces in order to respond to changes in the environment. Therefore, even though the facts are the same, the difference between strategy and strategic decisions may find itself in a wide range in the way of their formulation and implementation.

This argument is often disputed, and it is often emphasized that the main reason for the differences are the people in different organizations. It turns out that organizations with greater percentage of human labor, as is the case in the service sector, are more susceptible to variations in the final result. However, there are differences in the treatment of humans, too. If we know that there are no two same people on earth, and we know that every person is different from another, how is it possible that different people take same drugs with more



or less same expected effects, whether by the outcome (positive or negative), and by the time necessary for drugs to produce results. It is obvious that medical science has managed, through scientific experiments, to arrive at scientific information that is universal and whose outcome is expected in each patient, just as it is expected by every medical professional.

A relatively strong argument that strategy is not science lies in the fact that Sun Tzu in his book 'The Complete Art of war' (approximately 509 BC) elaborates the art of war that comes down to the skills of issuing instructions, commands and explanations, and the practicing of small units through segmentation, articulation and maneuverability as the primary goals of military preparation. The key idea of this military leader was that we should not strive to defeat the enemy by engaging in armed conflict, but to prevail without battle as such, which is the area of diplomacy. (Sun Cu, 2005, p.21-36).

In the past, as in modern times, a number of successful businessmen had no knowledge of the strategy as a science, yet they managed to create and maintain their empires which last to this day. Their skills and ability to assess the current situation and use it appropriately is not a matter of science, but rather matter of skills. Finally, one of the most successful people in the last two decades had been Steve Jobs who had no formal education, who knew nothing about management and strategy, but still he managed to make his company competitive and in the industry considered to be highly volatile. The situation is similar with other big names in the world of business, in the world of manufacturing, hospitality, banking, etc.

The problem of strategy in strategic management increases if we bear in mind that Japanese companies do not have or are abandoning strategy as a basic tool for the realization of the set goals. Japanese management sticks to one and the same strategy, which is to produce the best quality products and services with the lowest possible cost price and selling price. In this context, there are different techniques and tactics, such as quality management, just-in-time, encouragement and use of innovation, creative imitation, etc. Abandonment or marginalization strategy is the first sign or symptom that it is not effective in creating greater business success.

If we are to conclude that strategy is not a science, the question arises to what extent the availability of databases and their use improves the quality of strategic decisions. The business literature is full of case studies and observations that the development of information technology has significantly improved the process of strategic decision-making, because the data can be obtained faster and better. However, studies on the example of 330 public north American companies showed that companies that use massive databases policy decisions have had a better business success by 5-6% compared to their competitors, as measured by the increase in value of the shares on the stock exchanges. This study showed that about 50% of strategic managers make decisions based on intuition and experience (McAfee, & Brynjolfsson, 2009). The fact is that more information lead to better predictions, and this inevitably leads to better decisions. However, it is shown that the use of massive files, in the absence of scientific information, cannot significantly improve the business success of organizational systems, which imposes the primary need to establish a scientific basis for the formulation and implementation of strategy, and then to increase the use of the database.

From the above we might conclude that there is room to doubt the scientificity of strategy, because there is not enough evidence that its conclusions are based on objective, i.e. scientific facts. Therefore, it is more realistic to view strategy as a science and art, leaving us with the question to what extent one or the other phenomena are present. One of the reasons for the above might be the fact that for decades the dominant concept was Porter's concept of formulation and implementation of strategies, never reviewed nor upgraded.

## **2. The necessity of introducing medicine into formulation and implementation of strategy**

Without going into further analysis of whether and to what extent strategy is a science, i.e. to what extent it contains skills, the fact remains that Porter's concept of strategy is no longer applicable, because it is based on mechanistic-deterministic basis, which does not correspond to turbulent times. This is a paradox indeed, especially since Sun Tzu believed that “the key element in fighting is spirit, or chi, which is the vital energy of life itself. It is evident, therefore, that as early as 500 BC people were aware of psychology in which spirit was the basis of many aspects of Chinese thought, from metaphysics to medicine. It is not clear, however, how did spirit - governed by will and intent - disappear from warfare, and why is it so scarce in the works of classic management theorists and classic strategy.

Instead of the mechanistic-deterministic approach, it is necessary to perceive strategy from the standpoint of strategy biological-medical sciences, which is logical, because strategy is the result of thought process and mental energy that exists in man. Functioning of man, and especially the relationship between the brain and the executive body parts can analogously be applied to strategic management. Brain or top management has the ability to think and to make mental constructions, i.e. to make real alternatives and decisions. Body or those who implement decisions should put to practice what brain had envisioned. Therefore, man works as follows: (1) first ideas and strategies are formulated in the human brain, and (2) the execution of strategy through the body or organization. Body obediently carries out the decisions of the brain. Arms, legs, other parts of the body do not get to choose what they will do; the brain decides. Orders are a one way street and go from the brain to the executable parts of the body, as is the case with information ranging from the brain, i.e. from higher level of awareness towards parts with lower level of awareness.

Medical professionals, especially neurologists may not agree with such a simplified representation of the brain functioning. It turns out that from the standpoint of strategy and strategic management this metaphor is correct. It can be used to formulate strategic process, but also for its implementation, especially if one is familiar with the anatomy and physiology of the human activities as a conscious human being.

On the other hand, getting to know the source or root from which strategy arises is important, because he who does not know where he comes from cannot know where he is going to. It turns out that every effect must have a cause, and if we want to turn strategy into a science and an efficient concept, we must influence the cause, or the human mind that is able to produce mental constructions, make real alternatives and select the most advantageous variants of turning it into a decision.

### ***2.1. The source of strategy and strategic process***

Strategy is the result of a thought process and creativity of strategic management. It occurs in the human brain, which consists of the left and right hemispheres. Each of the two parts produces different strategies or different quality strategies (Radosavljević, 2004).

The left side of the brain is based on logic, analyticity, gradual development and respect for processes and procedures. It processes the information in a linear manner, from parts towards the whole, i.e. proceeds from the parts, assembles them into a logical entity and on that basis draws final conclusions. People who have a more developed left side of the brain prefer to make plans, priority lists, schedules and graphics representing

the strategic process. In presenting their strategic thinking, the strategists of this sort use symbols, logical maps, symbols and formulas. Therefore, strategists with more developed left side of the brain present their ideas and strategic assessment in a clear, direct and understandable way for analysts, but also for those who are to implement that strategy. They often use analogies trying to analytically and directly give instructions on how to reach the goal. Strategists who have a more developed left brain hemispheres implement strategies according to established policies and priorities, and when the strategic goal is achieved, they perform analysis of the strategic process in order to draw certain conclusions.

The right side of the brain has the capability of creativity, intuition, improvisation and the ability to immediately solve the problem. This side wants to see words, symbols and ideas in a wider context, and how they function in real life, or in practice and on the field. Persons and managers at the top of the hierarchical pyramid with the more developed right side of the brain find it difficult to provide the right words to explain their ideas, because ideas keep coming up, which is why there is often confusion. Therefore, general decisions are most often produced, and they are later implemented in details. In other words, the right side is capable of deductive reasoning, i.e. it starts from the whole to the parts where it first constructs a large strategic picture, which then presents the exact goal we must achieve. In this context, people with more developed right hemisphere have no clear priorities, they are not oriented deterministically, often tend to miss deadlines because they are willing to parallelly perform multiple jobs. They do have a very strong sense of intuition, i.e. they are able to sense a problem, and further they can also sense the right answer. However, they see neither analytical nor operational ways to solve the problems.

The above analysis indicates and proves that dominance of either left or right side of the brain determines the quality of strategy, as well as its creation and implementation. Strategists who have the right side of the brain more developed, as a rule, tend to better formulate strategy due the greater presence of creativity. They have more alternatives and the ability to choose the most suitable one and turn it into a strategic decision. Therefore, if we conclude that our problem with strategy is its formulation, clarity and ability to predict future events, it is necessary to strengthen the strategic management with experts who have the right side of the brain more developed, or we must attempt work to strengthen the right side of the brain.

The dominance of the left side of the brain determines that focus is more on the practical side of strategy and its implementation. Managers with this feature follow the processes, procedures and standards set out in the strategic decision and are suitable for the executive office or for operational and tactical management, through which the strategy is implemented. If we conclude that the strategy is well formulated and the problem is its implementation, strategic management, or administrative committees must strengthen the management team with professionals who have the left side of the brain as dominant.

However, recent studies in the United States have denied the above claims that dominance of either left or right side of the brain in strategic managers determines the quality of strategy, and generally determines strategic management of organizational systems. It has been proven that the most successful strategic managers are those with balanced left and right sides of the brain. It is evident beyond doubt that managerial work is dynamic, complex and accompanied with a number of uncertainties. Therefore, when necessary, strategic managers must think logically and methodologically, but they also must be creative, intuitive and unencumbered with the rules and procedures laid down in the formulated strategy.

Generally speaking, as stated above, the left and right sides of the brain process information in different ways; what the outcome will be and what kind of decision the brain will make depends on which side of the brain is dominant in every single individual. In any case, experience has shown and proven that the process of thinking, i.e. the process of strategic thinking is more successful when both left and right sides of the brain participate. Accordingly, each person should strengthen and consciously promote one side of the brain that is less dominant, so that both sides are brought into balance, i.e. that we reduce differences between them.

The above findings are significant for the selection of people who are to be admitted to the management schools and trained to perform the most complicated tasks. In the eighties, the Harvard Business School in enrollment of prospective students demanded brain scan, to determine the dominance of the left or right side of the brain. If the side that created creativity dominated, it was felt that these individuals had greater potential for answering more complex questions in the world of business. However, if focus was on practicality or management executive jobs, students with a more developed left side of the brain were admitted.

The introduction of medicine in strategy and strategic management has led to the discovery of a new quality of people involved in the strategic management and the formulation and implementation of strategy. In addition to the intellectual potential and talent, future strategists must constantly educate themselves and train to respond to new problems in the world of business and strategic management. Therefore, it is now impossible to be successful if we apply the concept of strategy suggested by Porter a few decades ago, in much the same way that current concepts will not be able to solve the problems of the future.

## ***2.2. The relationship between mental energy and strategy***

Any action or activity is conditioned on using some form of energy. This principle applies both to technology and man-made mechanisms, as well as to man. Therefore, man as a conscious and rational must in his activities use mental and physical energy. In other words, man must first conceive what to do and how to do that for which he needs mental energy. After that, man is to implement the management decision for which he must use physical energy, i.e. the power of his muscles, or of the power of man-made mechanisms. When using mental energy and creating thoughtful design, or concepts, one does not need to use physical energy, but when he does use the physical energy it is necessary to use mental energy and intelligence as its product.

Strategy is closely related to mental energy, which is logical because strategic process is the result of mentality, from the formulation to implementation of strategic ideas. Thus, mental energy is energy that is created in the human neocortex, and it is the result of the movement of neurons. It creates mental and strategic processes, and this in turn creates mental activity in receiving pulses from the environment and the establishment of functioning of self-organization, i.e. organizational systems in accordance with the conditions in the environment.

Mental energy is analogous to electricity. Just as electricity has positive and negative poles, mental energy too has its own emotional and motivational halves. If one pole is lacking there can be no electricity. In that same way, if either emotional or motivational energy is missing there can be no mental processes, and thus no mental activity. Accordingly, without mental energy there is no strategic process and strategy as a result of thoughtful design (Vučenović, 2013).

Emotional pole creates needs and wants in a man. Desire arises in the mind. If a man wants something, conscience shall tell that to the subconscious mind which will fulfill the request of consciousness, without any question whatsoever. Subconscious is

the builder of the body and is able to heal, which is natural, because the law of life is the law of faith, and faith is thought that is born in mind. Every person and every organization has its own needs and this is the source of the foundation of all social organizations.

In the classic strategy, emotional intelligence is neglected or marginalized. It used to be believed, and is still so, that one should exclude emotions from business and in general from any form of work altogether because they ‘kill’ success. This belief further produced the classic management claim that strategy should rely on material resources, and that man must perform according to the dictates and instructions of strategic management. Just how unacceptable this attitude is today is evident from the fact that today those organizations and individuals that take into account emotions that create desire and build them into their strategy are the successful ones. Without this element, it is difficult to be competitive, because every organization whose reliability is based upon man is unreliable.

It turns out that is the biggest problem, because objectively there is a large gap between wishes and possibilities. This law applies both to individuals and communities. In fact, in every new time dimension man displays not only new needs, but also expansion of existing needs, especially when it comes to quality of satisfying the needs. On the other hand there is the problem of limited resources, which in each new era keep getting scarcer, and their availability becomes uncertain. In fact, strategy should answer the question as what is the most appropriate way to implement the strategic concept. Strategy should make it possible for us to achieve our goals and satisfy our needs with less effort and other expenses, i.e. to enable us to maximize our results while minimizing our economic sacrifices. Strategic management should, using strategy as a tool, develop needs and desires thereby enhancing the emotional pole. Through feedback, this emotional pole should then positively affect the creation of desire. This further means that strategy is not a goal, but an instrument for achieving the defined objectives.

Motivational power produces will, i.e. wish and motivation to fulfill desire. If a man, or if any organization have the desire, but not the will to implement the strategy, the desire remains useless. That is why the classical strategy and theory of management kept searching for different ways to motivate employees and encourage them to meet the objectives. Sun Tzu saw rewards and punishments as the main levers of military victory. He favoured rewards and marginalized punishments, feeling that they can be applied only after the creation of an emotional basis. In other words, to quote Sun Tzu: ‘If punishment is applied to the army before they become devoted to his commander, the army will not be submissive. If the army is not obedient, it is difficult to use it in combat. If punishment is not applied after the soldiers became devoted to his commander, then the soldiers are unusable (Sun Cu, 2006, p.40).

In this context Maslow’s pyramid of motives is also based on the need; today it is the basis for the study of motivation, although it does not provide entirely universal application, especially when it comes to the order of satisfying the needs of higher rank. Bearing this in mind, the strategy should address both the emotional and motivational element, but also the necessity that strategic management must create needs, i.e. desires, and must motivate participants to implement the strategy.

### ***2.3. Integration of (will) desires, knowledge and opportunities - condition for strategic success***

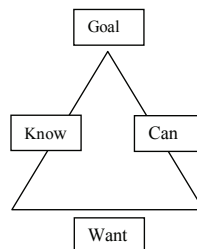
What distinguishes successful and unsuccessful man, or a successful and unsuccessful organization? Why some can hardly provide their own survival, while others are successful even in times of crisis? Are there any differences between two successful men, or two successful organizations? The answers are complex, but they more or less boil

down to the fact that successful emit positive energy creating their own model of the world, they are confident of success, and they integrate desire, knowledge and capabilities into the definition and implementation of goals. Richard Bandler and John Grinder, who created the technique of neuro-linguistic programming (NLP) dealt with this problem (Harvard Business Review 2011).

Any strategy must integrate its resources so that through to the synergistic effect it can achieve greater effect than if individual potentials acted separately. Therefore, we see that integration creates synergy, and synergy is free energy, which is obtained by the simultaneous action of force on an object, phenomenon, or process. It turns out that the special effects in any strategy can be realized by integrating desires, knowledge and opportunities.

It turns out that willpower can arouse desire in the mind of another person and lead to appropriate action, i.e. lead to complex effects on the minds of others, through the so-called induction of mental activity. The quality of the strategy depends on the mind, i.e. on thought structures as the driving force of everything that exists. In other words, every thought is a cause, and everything else is the consequence. The mind produces thought. If we are trying to change strategy, we must change the cause, i.e. we must change the way we use our own consciousness. Scientific and everyday practice show and prove that mind has answers to all the questions, and it is actually an infinite intelligence. The greatest scientific discoveries in the future will entertain exploring in more detail the relationship between consciousness and subconsciousness, and their use in improving the health of people.

Desire and will are evident in every mental action. We should herewith also mention the possibility of satisfying the needs. It turns out that is conditioned on three elements that are interconnected as follows (Radosavljević, 2006b, p.11-19):



We clearly see that the basis of everything is will, i.e. or desire to achieve something. If we wish that something gets achieved, then there is no obstacle to prevent this from happening. All we have to do is want, and that is the biggest problem for which we develop special techniques to act on the people's consciousness in order to develop motives or stimulus that will trigger human energy for a certain action or lack of action. The techniques of neurolinguistic programming are able to increase will, i.e. desire. It turns out that everything man dreams can be achieved. In other words, desire is the starting point, but it remains nothing but an empty wish if there is no will to see it realized.

Given the above, the verb 'want' is on the base of the triangle, upon which the whole strategy is based, as well as general management processes in the organization. This verb is the assumption of mental activity, i.e. will needs to propel mental energy and create the effect. In the context of the strategy, it is quite possible that there might be high intensity of desire or need to formulate a strategy that will achieve competitive advantage, but if there is no will on the part of employees and other stakeholders to see

it implemented, it remains but an idea. Practice in a large number of companies shows that they come up with strategies of excellent quality, but these are not implemented due to lack of will. This element in achieving the desire simply cannot be bought, it must be created within the organization.

Strategy always counts on reality, i.e. on the possibility of its implementation, in order to produce certain effects. Strategy should identify its own capabilities as well as environment conditions, and should use them to achieve competitive advantage. This is the reason why we undertake to evaluate conditions and market competition, our strengths and weaknesses, opportunities and chances – in order to create the most advantageous strategic concept based on these elements. If strategy is formulated as a simple wish list, and there is no possibility for it to be implemented, then it is utopia rather than a concept that deserves special attention. In that case it is even better to have no strategy, rather than to have unrealistic and impossible strategy.

The third element of making wishes come true is to know how to reach effect through strategy. Practice shows that we may not know how to achieve a certain thing, but if there is will or desire to achieve that, we shall find people who know how to do it, pay them and they will eliminate the problem. The same applies to the (im) possibility. Human brain has this ability to – through the process of thinking continuously about a problem - create mental constructions in order to create the opportunity for the realization of an idea or strategy. This conclusion is logical, because mind has the answer to all the questions and problems of the cosmos, because every phenomenon has its cause, and its discovery was the result of a thought process, which manifests itself as a universal intelligence.

It is evident that compatibility between will, opportunities and knowledge is the prerequisite for achieving strategic success. The smaller the disproportion between these two phenomena, (i.e. the greater the coherence), the more efficient and effective man becomes. Therefore, one must first wish, and then want, i.e. have the will to implement that. When this harmony is established, brain has the ability to design a way for the realization of their ideas and strategies. The more you think how to achieve your desire, or goal, the more it will produce higher quality alternatives; further, the best alternative transforms itself into management decision, i.e. into strategic decision that will have a high quality application and implementation.

Regarding mental energy it is important to know that it is unlimited. In every human being there is enough mentality to live on it. Whether this energy will be launched and used depends on the person, i.e. whether he wants to put it to use providing his own survival and progress. The problem is that human mental energy is very little used, and it is estimated that this does not exceed 10% of its potential. One of the reasons for lack of success today and the emergence of modern crisis is that mental resources are insufficiently used through new strategic concepts and innovations in organizing and managing organizations. This conclusion is logical, because let us imagine that in an organization resources, i.e. potentials (raw materials, technology, employees) are used by 10%, could that system survive in an increasingly competitive and uncertain market. Even minimal increase in the use of mental energy would lead to substantial progress both in the micro and macro levels, which boils down to the phrase that ‘we need to work smarter, not work longer hours.’

### 3. Holistic-systemic view of strategy

Modern science emphasizes that no scientific law or scientific discovery can last forever, but that everything is subject to permanent reviewing and proving its authenticity in accordance with new scientific knowledge. This also applies to the

strategic management and strategy. These phenomena too need to be reviewed in line with changes in the technological, organizational, social and political context. At its beginnings, scientific research was aimed at researching the rules and laws of functioning of natural self-organization, and the cosmos and its parts, and later directed its attention to other self-organization, and above all, man.

In the period from the fifteenth century, science had developed the classic Cartesian scientific method based on the principles of mechanicism and determinism. This scientific method of research has been to this day applied in the formulation and implementation of strategy. It turns out that in the eighties this concept was dominant with Porter when considering business and competitive strategy. As such, it has contributed significantly to progress in social development.

However, modern scientific discoveries show that the classic method in the formulation and implementation of strategy has become a limiting factor in scientific research. This is because the Cartesian method is able to provide only partial knowledge of natural laws. Most certainly, ‘one can not deal with just one subsystem and expect to solve the systemic problem. Systemic problems require systemic solution’s (Adizes, 2011, p.187). This method did not take into account the cause as the primary element in identifying and defining the manifested problems, processes and phenomena.

Now we are aware of the evident need to introduce into the scientific methodology the concept of integrity instead of the mechanistic concept of the whole. This is the need to introduce monitoring of all the elements of the strategic process from the perspective of the whole, or in their mutual relations and interactions. In other words, every part of the strategy affect other parts, as well as the very whole, and a whole must also be connected and interact with the environment in which the strategy works. Biological physics and medical science significantly contributed to this concept by introducing the principle of stochasticity, and the discovery of information as the third required component of the organization.

Observing strategy, we can say that it is a particularly organized structure of the whole, whose quality characteristics can not be inferred from the quality of the parts that make up this particular unit. For example, it is impossible to perform the analysis of the quality of the strategy of certain elements, such as situation assessment, strategy formulation, implementation, etc. Classic theory which is still dominant today insists on those concepts in the formulation and implementation of strategy. It turns out that each element of the strategy must be viewed in its entirety, i.e. within the relations among elements, as well as its relationship with the environment to which the organization belongs. This stems from the indisputable position which was once defined by Plato and Aristotle where the whole is always more than a simple sum of the quality of the parts of which it is composed. This is another alpha plus, i.e. Aristotle called those relations between the parts the very soul of the organization.

This theory has a number of practical implications. In this context, it should be borne in mind that it is wrong for strategic management to appoint teams, agencies and consultants to formulate a strategy and, then to name other teams that have the task to implement the strategy. Certainly, this conclusion is natural, because it is necessary that there is unified strategic thinking, and that the one who formulated the strategy has to work on its implementation. Let us imagine a situation in which in combat certain generals only define strategy, and the others are in charge of its implementation. In other words, some are to perform strategic assessment, and the others are to create strategy based on that. Or imagine that into war combat we introduce strategists who did not participate in strategy formulation. Let us imagine a situation in which the strategy was formulated outside the coach of a sports team, and the coach was left with implementing



that strategy. This could produce negative effects in these cases, but the situation is the same in the sphere of business.

Hence, there is the practice of appointing strategic management for the duration of the strategy. With the change of strategic management it is difficult, if not impossible, for current strategy to survive, especially if it is a dynamic and changing industry. This does not mean that outside experts cannot be used in certain parts of the strategic process, but they should not dominate; they simply cannot produce a sound strategy based on strategic thinking of someone else who does is not familiar or not familiar enough with the given phenomenon, no matter how relative this phenomenon might be.

Practice shows that also in theoretical terms it is not correct too emphasize the formulation and implementation as two elements of the strategic process, because they are two sides of the same coin. If this is not the case, the professionals who formulate strategy will often ignore its application feeling that other teams shall deal with that problem, and those who implement the strategy have no idea about the whole strategic concept and the strategy as a whole.

On the other hand, it should be borne in mind that the strategy should be seen as an entity consisting of certain parts, such as: operational art, and tactics through which it is implemented. The quality of strategy is particularly evident in its implementation. High quality strategy is the one that has a satisfactory outcome for all stakeholders who are directly or indirectly realize their interests in the organization, or through the organization. A strategy that does not bring satisfactory effects cannot be viewed as successful and must be changed.

Further, strategy is part of a subsystem of policy from which it stems and through which it realizes the policy of shareholders and owners. If there is no policy, there is no strategy, which is natural, because if there is no whole, there can be no functioning parts. Policy, however, can function without strategy, and these phenomena should be viewed as between whole and parts. In other words, a whole can exist and survive without parts, but parts cannot exist without the whole. This rule derives from medical science. Indeed, man can survive and function without legs, arms, or other parts, but hands or feet cannot function without a body. Radosavljević, 2006a, p.236-244).

The previous statement is important for the strategy, as strategic management in reaching strategic decisions must take into account first of all the whole that is more important than parts. Accordingly, the strategist must often sacrifice the interests of the parts in order to – through these sacrifices - achieve a greater effect on the level of the whole. This rule too is the result of medical science, which was among the first to implement the principle of holism. Surgeons and teams of consultants often make decisions about the removal of certain parts of the body in order to save lives. Otherwise, there would be a threat to survival, as the first and primary goal of all living beings and organizations.

Application of holism and holistic concept of strategy and strategic management will become more and more important, because it increases the complexity and interdependence of the parts within the organizational systems, as well as between the organization and the environment in which they operate. It must be established attitude, it's all part of a whole and at the same time, some parts of the unit, which are interconnected and iterative relations.

Therefore, we can improve the quality of the strategy by improving the relationship between the parts of the strategy, particularly in terms of increased complexity and interdependence between the individual parts, as well as by improving relations between the parts and the whole, i.e. between whole and the environment in which it operates. At the same time, the interaction between the individual elements of the strategy produces a

new energy, which is called synergy. This is possible in conditions where implementation strategies differ from strategic ideas and strategic decisions, and when we take corrective strategic decisions, which are simultaneously applied in practice. Synergy is the free energy, i.e. energy that is obtained without additional financial investment. Therefore, if there is a dynamic synchronization and communication between the parts, then they produce a new quality that can not be inferred from the quality of the parts.

#### **4. Problems in formulation and implementation of strategies**

It has already been noted that in modern conditions classic strategies are generally applied, i.e. strategies that are taught in high schools and business as a result of the classic theorists strategy. These strategies mainly refer to normal times, i.e. to times that were less turbulent, and in which there was relative stability in the business. Since normal operating conditions are becoming rare, it is necessary to conceive the so-called crisis strategies, i.e. adaptive and flexible strategies seldom referred to in classic strategy.

It should be borne in mind that the modern world has changed, and there are less and less traditional organizations. Instead of permanent jobs today there are occasional and temporary jobs, performed from a distance, thanks to the use of information technology. Employing people ‘at a distance has brought about the question whether offices are necessary, and it has provided more satisfaction for the employees since they can choose their working hours.

This is the biggest change of them all since the traditional managers simply cannot grasp that employees perform tasks without being seen by the management. According to estimates, ‘perhaps one-quarter of all jobs in the United States can be done remotely’. A survey of 2,000 USA companies was conducted in 2011; one-quarter of them plans in the future to introduce or increase the number of ‘remote’ employees. These studies have shown that the number of these jobs increases four times faster than the increase in total employment over the past ten years (Lund, Manyika, & Ramaswamy, 2012). It is clear, therefore, that the above has considerably changed our understanding of strategy, but it also changes the way we create and implement strategy. All the changes mentioned above demand that first we change the strategic management and adopt the new reality: this is, without doubt, the hardest thing to do.

Strategy as a phenomenon is understood in many different ways, and it is also differently diversified. In many cases, it answers the question of ‘what’, i.e. what the goals of the organization are, which is unacceptable. Goal or goals are determined by the policy, i.e. by the board of directors, or by the owner himself. Strategy, on the other hand should answer the question of how to achieve these goals. From this it follows that strategy is a part of policy, i.e. a subsystem of policy. If there is no policy, there can be no strategy, which is natural, because these two things should be considered as the relation between whole and parts, i.e. whole can exist without parts, but parts cannot exist without the whole.

The above fact is indeed important, as we often formulate either branch or corporate strategies, without making national strategy first. This is a result of fashionable trends and does not help successful goal setting. For example, it is not possible to formulate the strategy for the development of tourism, agriculture, or other activity, if there is no national strategy. This for the simple reason that national strategy should define at the macro level the general way to achieve national goals and interests, and the national

strategy as a whole should arise special (branch) concepts that will determine the most efficient and effective way of implementing the objectives in this area.

#### ***4.1. Differences between strategies***

Instead of classic and universal strategies modern business is dominated by adaptive and strategies that shape the environment. This is in line with the level of technological, organizational, managerial, and cultural-social and other changes that have happened and that are happening in modern conditions. Given the diversity of organizational systems, the general characteristic is that today there are no uniform, but different and unique strategies. It turns out that there are no two strategies that are the same, because there are no two same organizations or same business ambience in which they operate or work. To what extent this axiom is neglected is evident in the fact that at the global level for certain areas the so-called global strategies are created. For example, at their meeting in May 2007 the Ministers of Education of the Bologna countries adopted an international strategy that emphasized the need for ENRA to be more open and attractive to students from other parts of the world, as well as to strengthen higher education collaboration and political dialogue with non-European. (Prosvetni pregled, 2013, p.3). The situation is similar in other areas, too.

It is clear that objectives and means are mixed up here, that it is impossible to formulate a strategy without taking into consideration differences, because each strategy is produced in the first place in order to respond to new challenges in specific temporal, spatial, cultural, political, social, religious, and other customary conditions. It turns out that these conditions vary in different countries of Europe and there is a big difference between European and non-European countries. Therefore, this is a typical example of the classic, i.e. uniform strategy, which may not give a satisfactory result.

Therefore, it is absurd to either copy or take a strategy from another organization or system. It turns out that each strategy corresponds to a particular organization, and situation. In other words, within the same branch one strategy is formulated for large and another one for small and medium enterprises. Moreover, strategies change depending on the lifetime of the organization. In the phase of creation or birth, we formulate adaptive strategies, because this is the most sensitive stage in the development of an organization. In the maturity stage, when the environment is less adaptable, classic concept of strategy should be applied. This is completely opposite compared to the Porter's concept and concepts of other classic theorists. (Reeves M Love, & Tillmanns, (2012, p.2).

In adaptive strategy, strategic planning which is based on the concept of the classic strategy loses its importance that had lasted for many decades. Instead of designing universal strategies which are based on stable elements and whose quality is evaluated through the length of their survival, the modern concept is based on flexibility and strategic plans have been replaced with maintaining permanent 'daily battles'. Accordingly *Hispanic Zara* has the adaptive strategy based on a flexible supply chain. This strategy allows for production of new models of clothes in an average of 2-3 weeks, while the industry average is 4 to 6 month. Shortening the life cycle of the fashion industry is a significant asset to this company. Thanks to the above, *Zara* has managed to take over a significant market share from other companies, such as *Marks and Spencer* and others. To this we should add one more alpha plus, which is that the relations between the participants in the supply chain are partnership relations, i.e. completely different from the classic strategy in which each member follows solely his own interests, without taking into account the other participants.

Another, perhaps the most important quality of modern strategy is the attempt to shape and change the environment. In a classic strategy, SWOT analysis is a commonly

used tool for the design of strategies, i.e. concept of assessing their own strengths and weaknesses and comparing them with the opportunities and threats that come from the environment, as well as demographic, socio-cultural, technological, economic and other types of segmentation. (Dess G., Lumpkin T. & Eisner A. 2008, p.44).

In modern terms, strategy is focused on the potential outside the organization, taking into account the ecosystem, customers and suppliers, creating new standards of technological processes and generally favorable environment for the development of organization and strategy. Instead of the classic strategies approach which insisted that the organization responds to changes in the environment, through the strategy of “shaping” the organization seeks to shape the business environment in its favor. For this the techniques of marketing, lobbying and partnerships in various forms are being used. Thanks to these techniques, Facebook had in a very short time overtaken My Space and became one of the most important social networks for communication between different entities in the supply chain, but also between organizations and environments.

The shaping strategy is particularly applicable in varying industries, such as digital marketing, IT industry, fashion and other areas. Contrary to the above, the classic strategies have greater success in traditional industries, such as automotive, oil, mining and other less volatile sectors. The classic strategy is also applicable in industries where there is monopoly, or domination of individual national economies globally. However, they too are changing and adapting to new trends.

The introduction of foresight in the shaping strategy results in a higher level of quality because here we attempt to shape the future, or to find out what the future will actually look like in the coming period. Practice shows that certain companies have the ability to shape and predict the future, but are not ready for a radical strategy. The example of the Chinese Tata company confirms the above conclusion. The company has already constructed the ultra-nano car and promoted the following strategy: ‘Create and they will come.’ The fact is that in strategy waiting will never bring a satisfactory effect, including the above mentioned waiting, but we must seek things and, according to the old Christian custom, must take into account the strategy: ‘Seek and you shall find.’

#### ***4.2. The problem of strategy implementation***

The quality of a strategy is determined by its implementation. Strategy can be well formulated, but still with a problem in its implementation, namely that the assumptions on which the strategy was formulated are not real and deviate from the situation in the organization, the environment, especially in the market. Therefore, Einstein was probably right when he once said that we should spend the most of our time on defining a certain problem, and especially on the cause of a particular problem, phenomenon or process, and then we should try to resolve it.

Analyses show that strategies often fail due to lack of coordination in the organization. Disagreements are inevitable, when employees often attribute their failures to other departments, mostly to finance and marketing, and other functional departments that have their own procedures and principles of functioning. The problem with the strategy can be rectified through team defining of rules and deals that resemble contracts. (Sull, & Eisenhardt, 2012, p.4).

Analyses show that strategic management often attempts to define strategy, as well as its application, without having previously defined problems that the strategy needs to address. In just this kind of situation, strategists often solve the wrong problem the right way. For example, Kodak’s leadership used to be inconsistent, because any change in management brought change in strategy. Although Kodak started with photographs in

1880, he was too slow to change his strategy and the photographic industry was taken by the Fujifilm, which won market. Because of this Kodak was losing tempo and dynamics. It turned out that the management of Kodak suffered from a mentality of perfect products, rather than think of new approaches. In other words, Kodak was trying to improve as much as possible, the wrong product. This shows that strategies are mortal because they are always exposed to the immortal fight between competitors. He who survives is the winner, only to be faced with danger at his very next step.

In the management practice there often occurs concern about the length of the preparation and scanning of the environment, and testing its own potential in the company. It turns out that there can be complaints by the board about certain managers that they tend to spend too much time on the diagnosis of the condition. In extreme conditions there can even be certain penalties. This approach is likely to further waste time, energy and money, leading the company into failure.

The problem of strategy as a concept is in the creation of special teams to formulate and other teams to implement the strategy. Creation of strategy is often entrusted to special organizations, consultants, agencies and other external entities, and implementation is left to other teams or managers. This is not the strategy of a given company, but someone else's strategy. In a broader context this is not even a strategy, but advice of consultants that usually fail. This is clearly a mistake, because the one who formulates strategy neglects its application, and one that applies has no view of the whole strategic concept. This is a consequence of too great insistence by theorists of strategy, i.e. by Porter himself that strategic process must consist of formulation and implementation of strategy.

Formulation and implementation of strategy are two sides of the same coin. One without the other does not make sense. Ignoring the above, in the words of Shakespeare, would be like having a theatre play with no Romeo, or Romeo with no play. Therefore, efforts should to keep formulation and implementation of strategies within the scope of strategic management, where one can still use external services. In other words, strategy must be comprehensive, and its theoretical division into formulation and implementation must not divide them, but bring them together. This is particularly evident in the theoretical aspect of strategy and strategic processes.

Strategy is formulated at the top of the hierarchical pyramid, and executed at all levels, through operations, and tactics. It is always related to the whole. Quality strategy should be simple. In other words, each strategy is more effective if employees use simple guidelines in making and implementing strategic decisions. To achieve the above, it is necessary that all those involved in implementation are also involved in creation of strategy. It turns out that strategy is too serious a thing to be left only to strategic management. There are too many people who love strategy, but too few of those who are willing to deal with its implementation, especially when certain difficult circumstances occur. Let us remember S. Jobs who was obsessed with creating elegant computers that are simple to use. He found that computers were difficult to use, especially for those who are not specialists, and the main cause was that there were too many engineers in the software industry. (Gelernter, 2011. p.1).

In formulating and implementing strategy one should take into account the cultural and sociological dimension of a particular company or organization. In classic, i.e. Porter's strategy it used to be ignored, or not given adequate attention. The classic strategy is more acceptable in cultures that are traditional and slow to change, and that reward efficiency and penalize flexibility. Strategies in these cultures survive for prolonged periods, there is no willingness to experiment and learn. It turns out that without the process of learning there can be no development strategy, nor the willingness

to correct the same when circumstances change. In contrast to these, there are cultures that are favorable for the development of adaptive strategies, ready for rapid change, or that do not provide a greater resistance to change.

## 5. Resume

The analysis has showed that the classic concept of strategy, created in the eighties, is not able to provide satisfactory business success of organizational systems. The reason for the above is to be found in the classic postulates on which organizations were, such as hierarchical supremacy and subordination, determinism and giving excessive importance of material resources on one side and neglecting man as the basic resource of each organization. This reasoning provided satisfactory results with the overall effort to create a strategy that will provide more stability and development of the organization. Thanks to the above, a number of successful organizations had survived and realized the defined objectives.

Radical changes that have occurred in the last decade, and especially the changes in the organizational, technical, technological, economic and other aspects of the organization make it necessary to introduce a new, more flexible, and in particular adaptive strategy concepts, which will be based on science, and above all on biology and medicine. Most certainly, through application of these sciences it is possible to design and build organizations that would, in analogous manner, function on the basis of self-organization, as the most advanced mode of organization. It is evident that these concepts are better and are able to respond to all the increasingly complex and uncertain challenges that stand before the strategic management and organizations in general.

With the introduction of science in the process of formulating and implementing strategy, strategic management becomes an objective phenomenon that eliminates doubts and dilemmas whether strategy is a science, as well as numerous controversies that arise in strategic management. All this creates the conditions for strategic decisions in business organizations to be arrived at by using metaphors from factual medicine, i.e. that decisions are made on the basis of documentation, where the outcomes of those decisions would be certain. Through the use of analogies from the natural order, strategic management must scientifically document certain decision. Until then, there remain some serious doubts about the strategy as a science, because the same strategies produce different results, as well as different strategies can produce the same effects. In the end, we must remember the old wisdom by Naguib Mahfouz: 'You can tell whether a man is clever by his answers. You can tell whether a man is wise by his question.'

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## IMPROVING ENTERPRISE INTERESTS THROUGH THE PROCESS OF BUSINESS COMMUNICATION

### Abstract

*This paper is treating the problematics of communication as a vital part of business, organisation and management. Communication is an important company factor that can represent the border between its success and failure. Business communication is like an enterprise bloodstream that reflects healthy balance in its work. It is that communication that is used in different purposes, often product promotion, services or companies. Affability, accuracy, influence, consistency and tidiness of communication are qualities that are supposed to contribute to enterprise positive experience expression.*

*Every enterprise is trying to create a communication style of their own that is structured by the surroundings that it operates in. Enterprises can use different options of promotion to achieve inside out and inside in goals, in different situations. Providing modern equipment or technologies isn't enough. It is more important to master the market and its laws, create good relationships with clients and government institutions, and continuously improve knowledge. There are more and more lobbyists recently that use their abilities with public relations techniques in times of great value for lobbying or changing the attitude of the public or those that make decisions.*

**Keywords:** *enterprise, business communication, promotion, lobbying, information.*

**JEL classification:** M21, M37, M48

## УНАПРЕЂЕЊЕ ИНТЕРЕСА ПРЕДУЗЕЋА КРОЗ ПРОЦЕС ПОСЛОВНОГ КОМУНИЦИРАЊА

### Апстракт

*Рад третира проблематику комуникације као виталног дела пословања, организације и менаџмента, полазећи од премисе да је она значајан фактор утицка о предузећу који може представљати границу између његовог успеха и неуспеха. Пословна комуникација делује као крвоток у предузећу и одражава здраву равнотежу у његовом деловању. То је комуникација која се користи у различите сврхе, а најчешће за промоцију производа, услуга или предузећа. Сусретљивост, тачност, утицај, доследност и уредност комуницирања су квалитети који треба да доприносу унапредјењу позитивног искуства о предузећу.*

*Свако предузеће настоји да креира сопствени комуникацијски стил структуриран према окружењу у којем делује. У различитим ситуацијама*



*предузећа могу користити различите опције промовисања инсиде оут и оутсиде ин циљева у лобирању. Није довољно само обезбедити савремену опрему или технологију, много је важније овладати тржиштем и његовим законитостима, успоставити добре односе са клијентима и државним институцијама и континуирано усавршавати знање. У последње време све је више лобиста који своје способности користе заједно са публици релатионс техникама у тренуцима од велике важности за лобирање или мењање става јавног мњења или оних који одлучују.*

**Кључне речи:** *предузеће, пословно комуницирање, промовисање, лобирање, информација.*

## Introduction

Globalisation and modern technologies are key forces that design a new level of connections in the world economy. Global market changes in the surroundings are bringing constant increase of the market competitors and they are strengthening competitiveness. In that conditions, only active competitors that have the ability to do business by new market rules and principles can count on adequate tretmans and affordable economic perspective if they know how to communicate. The business social sphere is related to social and economic norm integration. Science and technology are advancing fast. These trends of development in this areas have to be closely monitored and applied in business. Communication can set boundaries between successful and a failed enterprise and generally the idea of it.

Business communication is the one that is used to promote products, services or company interests. It is a transfer of information within the business world or to the appropriate official government institutions. The purpose of successful communication is lobbying, transfer of information, messages and experience. That includes creating new ideas by agreement, opinion harmonization, and arguments even by refutation. Communication works like a bloodstream in the enterprise and it keeps healthy balance in their functioning. Every enterprise needs to have their communication style that is structured within its context.

Improving enterprise interests by adequate communication is in the foreground. Besides promotion of defined enterprise interests, consultant tasks are diversified in that sense that they work on bringing investments to Serbia and to acquire contacts with different companies that are interested to invest in our small country. One of the key activities of national lobbies association is helping local enterprises at opening to other markets and to strengthen relationships with multinational companies.

Variable surroundings is forcing enterprises to change for survival. That way of adjustment has to be partnered with the state. The state needs to give appropriate help to achieve successful market competition.

## 1. Modern enterprise and instructional surroundings

Difficulties that modern enterprises are faced, as well as world trends on the area of market globalisation, impose many urgent challenges that are necessary to answer. It is about confrontation with different shapes of integrative processes and accelerated

globalisation. Modern enterprise is forced to find an option so it could oppose to negative influence of market movement, and adjust to new business ways. That efforts need to be monitored by successful business communication and functioning in the newly created economic, social and informational environment.

Knowing state political chances in the business conditions in which the economic crisis end is seen is very important. State regulative and political environment are acting as the power to develop business, economy functioning, enterprise survival and at the end. For an enterprise to function successfully in the current business criteria, it is necessary to bring strategically important decisions using the right way. Guided by innovation and technology achievements, only those enterprises that are capable of effective adjusting to the rules of the game that is imposed to new business trends (Djordjević, 2012, p. 17-18) can survive on the world market.

Those business trends are:

- economic sustainability, building fundamental strategies to generate growth;
- building company compromises between employees and employers in sense of improving quality of their business;
- **introducing world achievements in areas of organisation, management techniques and methods, implementing modern information technology;**
- stable state regulatives and understanding the political context.

Economy depression is steering the world functioning. The only defence of economic enterprise collapse is understanding its logics. Globalised world is faced by visible discrepancy. Global market is opening perspective to unimaginable wealth, and at the same time is increasing its vulnerability and the hazard of rift between those that are a part of the globalised world and those who aren't, to political disputes and more certain war confrontation. Faced with unpredicted environmental changes and the fast world economy tempo, modern enterprises are found on a seesaw. They have to decide between big business risks and great opportunities that are offered on the market. The problem is creating a quality choice and to let go to new tendencies. If enterprise management is following technological trends and requirements of global economy, then the selection will be easier.

The consequence of this market situation is the fact that a great number of enterprises are excluded from business. Enterprises like that couldn't balance in the environment that is liable to constant change. The number of enterprises is increasing on the wrong side of the change chart. There is also an increase of the number of enterprises that are tangled in the nets of value and economic systems that they have little control of. Enterprise survival is conditioned by changes of the model of business ([www.gendar.rs/Poslovno-komuniciranje.aspx](http://www.gendar.rs/Poslovno-komuniciranje.aspx)) communication. Providing modern equipment or technologies isn't enough. It is more important to master the market and its laws and to create good relationships with institutions. To achieve that they need to monitor market indicators and information related to user requests and the level of their satisfaction. Special attention needs to be given to the analysis of competitors. It is hard to get successful fundamental business premise today, because the competition is countless, and consumer requests are getting harder to meet. Enterprise business prosperity depends of their ability to modify their products to customer requests and needs, and to meet world standards for the technology and quality of products.

Changed economic conditions are requiring new approaches in business practise. The enterprise has to behave in that way that it becomes a leader in its functioning, to offer the market what the competition isn't, by satisficing consumer needs the right

way. Initial step is the right management informativeness on market changes needs. To provide information that are related to user requests and the level of their satisfaction, as well as information on competitors (Hamel & Breen, 2007, p.21) is the key challenge that stands before every enterprise. In that sense, it is necessary for a company to have information processing systems on high business performance. Those systems contain market data, consumers, suppliers, competition, employees, auctioneers, financial results etc. These systems provide adjustment to their business to recent trends, making business communication easy and fast transformation to enterprise leadership on the global market. Technology is providing fast, reliable and cheap information transfer through the world. It is providing relevant information to the management about environmental changes.

Of course, technology isn't the only precondition to enterprise business success. Human resources are key factors. Parallel to technology improvement, professional staff needs to be trained additionally. Without them, their commitment to continuously learn, the company can't keep up with the world. Every enterprise needs people that have leadership skills that can see the changes of environment and market as well as picking the optimal strategy and force their vision and transfer it to others.

Expected results of improving enterprise interests by adequate business communication ([www.poslovnaznanja.com/objavljeni-autorski-tekstovi/e-magazin/](http://www.poslovnaznanja.com/objavljeni-autorski-tekstovi/e-magazin/)) and promotion, can be assorted to a few base categories:

- goals that the enterprise is trying to put to reality by disabling wrong decisions
- goals that will insure the enterprise if the decision execution is postponed to uncertain time
- goals that the enterprise will realise if the change of key decisions
- goals that the enterprise will make by creating a political background of the problem, influencing on debates of the problem that is important to the enterprise.

Harmony and dynamics of economic changes require that the enterprise develops and builds competitive leadership and capabilities. Competitively oriented enterprise can offer products of higher quality and by more affordable conditions than the rivals. As the strategy lifetime decreases, every strategy that enterprise managers choose has to be clearly adjusted to environmental conditions. By choosing strategies it is defining not only focus and growth options of the enterprises, but at the same time it should be leading to competitive leadership form creation. It is urgent, because strategies connect modern information technology, reengineering and modern techniques and tools.

The orientation competitive concept of the enterprise is the mirror of its success. The enterprise can build their orientation in only one form of business improving, but can get to optimal results by combining different elements. That orientation means: (Miletić, 2010, p. 37)

- Fulfilling modern market requests with expected products and services according to previously researched needs
- Focusing on consumers and competition at the same time
- Improving and modifying quality of existing products
- Using most modern technological achievements and informational technology and systems
- Modernising the existing production process in new, advanced tools and equipment

Globalisation and the complex environment are forcing enterprises to change so they could survive on the market. Striving that goal, the enterprise will succeed in the market game

by satisfactioning base economic principles. Help from the state can't be left behind on the way of adjustments and competition for the national economy to be more successful.

## 2. Small, middle enterprises and business communication

In developed countries, small and middle enterprises are the foundation of economic development and employment. They are the most vital and dynamic part of economy. The economic crisis has once again shown that small and middle enterprises are notably softening the fall of every national economy. They are the founders and movers of national economy as opposed to big enterprises, can have different rights and obligations. That's why they attach importance to development in every country. By strengthening their competitiveness, they are also strengthening the economy as a whole. There are special support programs in many states for small and middle enterprises that is conducted by the Government and the ministries in charge. The point of these programs (Ćirković, 2013, p. 71) is to facilitate access to credit funds, give start up information for starting and managing business, help by overcoming business problems, lowering the tax weight etc.

There is a number of criteria to be set to define micro, small and middle enterprise, as recommended by the European Commission. Most common criteria is the number of employees, total annual turnover or business property.

*Table 1. Defining small and middle enterprise in EU recommendation*

Category	No. of employees	Total annual turnover	Business property
Micro enterprises	0-9	Up to 2 milion €	Up to 2 milion €
Small enterprises	10-49	From 2 to 10 milion €	From 2 to 10 milion €
Srednja preduzeća	50-249	From 10 to 20 milion €	From 10 to 43 milion €

*Source:* Klepić, Z. i M. Buble, (2007), Small enterprise management basics of business, University, Mostar,

Significance an the role of small and middle enterprises in every developing economy and society is coming from the fact that they make the greatest number of enterprises in every market oriented economies. They face a great challenge in current conditions of economy to resist the premises of globalisation and the competitive market. For them to successfully develop, they need state support. In the sense of EU, the European commission is working on a wide spectre of political support functioning questions (Spahić, 2006) for small and middle enterprises of EU members. All support actions for small and middle enterprises are regulated through a unique and comprehensive law form. Small and middle enterprises are requesting support on a local level too, so the activities of the Commission imply helping member countries to build politics in function of improving entrepreneurship, improving the state of small and middle enterprises, securing access to new markets etc. Serbia, that is on the way of joining EU by creating favorable economy surroundings is supporting all recommended activities to small and middle enterprises.

Small and middle enterprise are a specific category for every national economy (Trbović, 2014) considering that they are the first to be hit with public decisions. That sensibility is seen in unsecure financial and commercial structure of small and middle enterprises, so the consequences of public decisions can be very serious for them. Their

business activity is often limited to one product or service, so of the decisions are related to structure changes as an example, these enterprises can be seriously threatened.

Small and middle enterprise are facing a financial problem in the process of building effective communication with those that have formal and informal power of decisions. Decisions that affect the success of their business. These enterprises manipulate enough funds to secure the access to meetings and gatherings on which key decisions are made for their business. Business communication in a sense of lobbying is known to economies of developed countries in the West. For small and middle enterprises is almost unreachable to communication due to the fact that it has a high price, and it is not a priority of business. Insufficient lobbying is leading to that they don't have any influence in decisions and they leave an impression of complete disengagement

As a form of business communication, only lobbying is the strategic economic tool that is used to improve economic interests from some economic subject (one enterprise or a whole industry).

It is all likely that small and middle enterprises have to adjust to this form of business communication to successfully do business. To adjust they need to find ways of overcoming problems that follow this process. First recommendation is to stay away from acting on their own. Small and middle enterprises on a local, national, and maybe even regional level probably can withstand the cost of financing these communication activities. However, with every next instance, the cost of business communication (lobbying) can increase to that level that it would be hard to afford. Caution is advised because of that. Engaging lobbying consultants can be very expensive for them, but it is possible to make a monitoring business climate for a reasonable price.

Insufficient organisational structures matching in common associations that would lobby in their name are another problem for small and middle enterprises. To overcome this business communication problem, small and middle enterprises are forced to use external results through intermediary structures. (Clamen, 2004, p.230) Different forms of association for small and middle enterprises carry certain challenges. It is important that the whole group interests overcome individual interests.

### **3. Improving the interests of company with persuasion**

Persuasion is a complex activity of representatives with special interest, which is quite legitimate, because everyone has the right to protect and promote own interests no matter if they are economically or politically. The value that brings lobbying, conducted in a professional and ethical manner, depends on the concrete possibilities to find access to decision-makers in the institutional environment and the quality of the arguments and information offered in return, which are very often needed in management and positively affect on making their own decisions. Persuasion in Serbia in order to influence on business decisions of importance for the company is still an abstract concept. In our country, more than in other countries, prevailing opinion that lobbyists are people dealing with corruption, bribery and blackmail. For those reasons the main task of the official institutions and associations lobbyists is to break down prejudices about influencing as illegitimate procedure in business communication, as well as legally better regulate issues related to this topic.

Lobbying represents activities aimed to professional promotion, improvement or protection of special interest with the primary aim to influence on work of the legislature or the executive. Lobbying ([www.rs.wikipedia.org/wiki/Lobiranje](http://www.rs.wikipedia.org/wiki/Lobiranje)) make possible that interest find proper way to public officials in order to attract their attention and possibly

obtain their support. That's why there are associations of employers, trade unions, union bakers and artists and other similar organizations.

From the economic point of view it is a defense and a commitment to the economic interests of certain companies or whole industries. For example, Lobbying for Serbian Government at the European Commission to achieve that higher export quotas for sugar beet in the EU. Corporate lobbying is kind of influence where it represents, promotes and defends certain narrow private interests of an industry or company. This is the most dominant example of persuasion and it is done either directly by industry, or through professional consultants. Institutional lobbying, however, is lobbying in the public sector, and is closely linked with economic lobbying, usually with some higher state or international institutions. Institutional lobbying implies that municipalities / regions lobbying at the federal level or with central authorities for obtaining development funds. The most commonly refers to the process of allocation of public funds to encourage economic activities, subsidies, etc, inside some political entity.

Potential lobbyists who may represent the interests of domestic companies and the entire economy in the institutions of the European Union and abroad in general, will have to obtain an appropriate license and be registered with the association. (Kaščelan, & Krsmanović, 2012, p. 157-158) The primary means by which lobbyists are trying to realize some influence in fact are the information, which has its stronghold in approach theory. (Bouwen, 2002) Influencing enables to emphasize the needs of the economy as a whole (branch / industry groups, companies) and civil society in process of political debate and making decisions. Center of the problem is not just simply collecting data, already the creation of original information through a multi-layered system of their collection, processing and adaptation. (Krsmanović, 2013, p.6)

In economic terms, the aim of these activities is, finally, to protect remaining Serbian brands in the country and the world and to build a better picture of our economy. In different situations, companies (including small and medium) will use a different options to promote the inside out and outside in goals in lobbying. For example, when a company seeks to promote new technological product on the market, it is necessary to influence the legislation. If the company wants to participate in a tender, it will strive to influence on change conditions of participation in the same. If company have aim to successfully implement a technological innovation, company will lobby to reduce political pressure. If it is necessary for the specific company to suspend the work, will influence for political agreement to reduce the negative consequences of that suspension. Also, the company will lobby against political support for the introducing a specific technological processes, introduction of technology or any other process that would work to the detriment of the product it produces. In a situation where interests of company are to expand its capacity, will lobby on their own behalf for changing the plan of spatial planning. Company will carefully and tactically through communication take a part in creating market policy as part of their economic activity. In order to help reach these funding companies will provide its business activities affect the conditions for obtaining investment or financial support, and so on. In order to easily reach these funds companies will through business activities make influence the requirements for obtaining investment or financial support, etc.

Therefore, successful lobbying imposes need to be well acquainted with the organizational structure of making decision, all the relevant levels of deciding, and even the names of decision makers. (Clamen, 2004, p. 65)

#### **4. Promoting interests of enterprises through the activities of business communication**

Everything begins with the process of communication. Since communication is base in many areas of business, each company trying very seriously approach to the development of business communication skills. (Dobrijević, 2015, p. 7) In this regard, corporate communications (Cornelissen, 2004) are an important part of business strategy and policies of the organization. By applying appropriate methods of corporate communications companies can improve their market position and interests through the promotion of, and therefore the total business. Properly improved communication techniques can lead to a positive response of investors, and the overall competitiveness of the economy and transparency of public institutions. The degree of development in corporate communication (Djordjević, 2011, p. 196) is significant indicator of condition business awareness in company, and their relationship with the business environment in which they develop own market cycle.

In the existing environment, regardless whether it's a company, interest group or any other type of associations, lobbying as profession in function of good communication involves engaging the experts in that area. In any situations the lobbyists task is the same, using own skills of persuasion to create new relationships and improving existing ones between the business community and the public sector.

Lobbying can be treated as part of the process of public relations. Lately, there is more and more lobbyist who use their skills together with PR (Public Relations) techniques, in cases of great importance for influencing or changing attitudes of public opinion ([www.co.rs/ODNOSI SA JAVNOSCU/OdnosiSaJavnoscu-.html](http://www.co.rs/ODNOSI_SA_JAVNOSCU/OdnosiSaJavnoscu-.html)) or attitudes of those who decide. Once, not without reason, Bill Gates said: “If I had one dollar left, I'd spend it on PR”! Connection between government and the mass media is one of the most important relations created during the process of lobbying. Mentioned relations helps to more precisely determine the areas in which lobbyists should operating.

Practically, lobbyists can represent both individual and general interests, which means that they can affect on decisions important for singularly enterprise, or for the benefit of the whole community. Since they have contact with representatives of the government and opportunity to acquainted them with problems in companies, lobbyists are in economic terms also the medium between the companies and the government. All the more so, since the representatives of state institutions are interested to hear what the consultant has to present on behalf of the interest group or client.

So, in an effort to implement a change, arrange some law or directive, the company will launch an advocacy campaign by hiring professional consultant or a lobbyist. The function of lobbyists in companies is arranged inside PR sector with a mission to create a link between the company and its environment. Creating and launching change is primary lobbyists task. There are different modalities for individuals in organisation to respond on changes in the environment. We're talking about anticipation of change, acting in accordance with the changes and studying them; and that the consultants are not ones who watch and wait, already actively participate in implementing the necessary changes.

Lobbyists usually act on the legislative and executive bodies, which is why lobbying can identify as one of the most important intermediaries between Parliament and influential public, and has a role in various aspects of public relations. Although in its essence and content, lobbying and public relations are similar, connected, and overlapped in many aspects, it is necessary to make difference between these two terms, and two different process. It is necessary to promote the interests of the company in both ways, through public relations and also with lobbying.

In function of realization of the interests of the companies, lobbyists can implement appropriate campaign which represents a segment of the overall communications program. Using lobbying techniques, they implemented ideas through contemporary models of public relations. For example, lobbyists tend to activities related to the protection of the consumer and market put into acceptable legal frame, which means that their efforts affect on curbing corruption. (Krsmanović, 2013, p. 6)

In order to promote the interests of the company with appropriate business communication, lobbyists must to create contacts and disseminate information in different directions of the business environment. His role is to actualize connection with influential persons from world of politics, media, science, with competitors, and once again confirm the fact that a good consultant has to have a large number of skills in various fields. The main role of lobbyists in the company is to arrange negotiation, meetings, to find new contacts, collect new informations and present them in time, to be versed into the business trends, and finally to analyse the competition. In order to successfully promote the interests of the company, lobbyists use as essential tools negotiation and influencing. Main resource of exploitation are connections and contacts, integrity, trust and professionalism is his capital.

The mass media perform a key connection and the most important mediator in communication between Government and organizations (especially individuals), concerning that it is unrealistic to expect that the companies get all necessary information directly from the official institutions. In that kind of situation the consultant should be also an expert in public relations in order to present information properly through mass media and thus gained confidence in the course of realization of their activities. He should know to recognize the right moment when some information may be used in the right way for accomplishing activities.

Socially responsible companies are in continuous contact with the representatives of authorities, informing them about their business, trends and future plans. The state and its institutions are constantly working on improving the laws, and also upgrading organization of the business environment. This only confirms misleading that the benefit of lobbying could have only certain companies, actually It's the opposite. With lobbying the state gets the opportunity to realize their own interests and aims of crucial importance for the whole society.

Aware of the fact that lobbying is mutual exchange of information with influential subjects from the environment, whose decisions may significantly to affect on the future course of their business, managers in great companies are forced to work on the harmonization of the flow of information. It's quite expected that for the lobbying, large companies spend substantial amounts of money. To small and medium-sized companies in these processes should help from the state.

## Conclusion

Success in business, company can achieve insofar as establish an adequate business communication with the environment. To be successful in communication with business partners, improve communication with main stakeholders in the state and society is significant request for each company. Good and successful communication can increase profits, so poor communication can reduce the same.

Should not forget that it all starts with fulfilling the needs and requests of the target market. Actually everything starts with the process of communication. To achieve successful results during its transformation enterprise can only come insofar as their



orientation is based on improving the various elements. This orientation of the company may refer to: products, technology, production processes, customers, competition, market, etc. Following the innovation and technological progress, at the global market will survive enterprises that are able to adapt to the rules of the game imposed by new business trends. Economic sustainability, making compromise, the introduction the latest equipment and management systems and understanding political situation in the country becomes crucial matter. The state regulations and political environment can affect on business development, functioning of the economy and, above all, the survival of the company. Many enterprises, especially small and medium, as bearers of economic development of the national economy can not survive in the market in terms of globalization without state support. Reason for that is fact they are first to suffer when comes to public decisions, because they do not have sufficient resources to ensure a presence at meetings where comes to decisions relevant to their business.

Directed towards professional promotion, advancement or protection of particular interest of companies, lobbying as an activity undertaken with goal in order to influence the work of the legislature or the executive authorities. Lobbying provide easier way to articulate the interests and forward to public officials in order to attract their attention and eventually gain their support. It is an economic instrument whereby the economic subjects actively involved in the decision-making process. The lobbyists use as essential tools in order to promote the interests of the company is negotiation, main resource of exploitation are connections and contacts, his capital are integrity, trust and professionalism. Today we have more and more lobbyists, which use ability to influence together with the public relations techniques.

Improved communication techniques can lead to positive response of the investors, the overall economic competitiveness and transparency of public institutions. Expected aims of promoting interests of the company are classified into two groups: those that the company is trying to achieve by preventing the adoption of specific decisions; which will be realized if substantially change the given decision; goals which will be achieved if the implementation of specific decisions postpone for an indefinite period or those that can be achieved by creating problem with political background influencing in discussion about the issue that is important for a given company.

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## ANALYSIS OF GLOBAL INTEGRATION PROCESSES: SOUTH AFRICA, ASIA-PACIFIC REGION AND RUSSIA<sup>3</sup>

### Abstract

*The paper examines the problem of global integration processes in regions of Africa, Asia and Russia. Based on migration flows, estimation of integration indexes, we investigate the historical integration development of these regions and identify the important features for future international cooperation and integration. This article presents the preliminary results of the gravity model that we constructed using the features of Asia-Pacific region. We concluded that differences and similarities in sectoral structure of GDP do not influence increasing of mutual trade between countries and its partners. It evaluates the potential benefits for Asia-Pacific region by expanding the market for export industries worldwide.*

**Keywords:** *global integration process, gravity model, ASEAN, Asia-Pacific Region, economy of North-East Asia, integration process of South Africa*

**JEL classification:** F6, R11

## АНАЛИЗА ГЛОБАЛНИХ ИНТЕГРАЦИОНИХ ПРОЦЕСА: ЈУЖНА АФРИКА, РЕГИОН АЗИЈЕ И ПАЦИФИКА И РУСИЈА

### Апстракт

*У раду се разматра проблем глобалних интеграционих процеса у регионима Африке, Азије и Русије. На основу миграционих токова и процене индекса интеграције, истражује се историјски развој интеграције ових региона и идентификују важне карактеристике за будућу међународну сарадњу и интеграцију. Овај рад презентује прелиминарне резултате гравитационог модела*

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*који смо конструисали на основу карактеристика региона Азије и Пацифика. Закључили смо да разлике и сличности у секторској структури БДП не утичу на повећање међусобне трговине између земаља и њихових партнера. Оцењене су потенцијалне користи за регион Азије и Пацифика од ширења тржишта за извозне делатност широм света.*

**Кључне речи:** *глобални интеграциони процес, гравитациони модел, ASEAN, регион Азија-Пацифик, привреда североисточне Азије, процес интеграција Јужне Африке*

## Introduction

At the beginning of the XXI century the integration unions, as the result of globalization and regionalization of the world economy, is gradually transformed into a new economic and political centers that define the vector of development in the regional and global scales. According to the WTO researchers in 2013, there was an estimated order of hundreds of regional integration groups all over the world. And nowadays, the researchers estimate the regions of Africa, Asia-Pacific region and Russia, as one of the most perspective areas of the future integration process.

Under the conditions of the WTO, the extended process of globalization and the expansion of the USA in the Middle East and North Africa, the main European countries were forced to find ways to maintain their influence in the region and to create sustainable mechanisms to promote their interests, now in a new format - as a single integration group. Historically, Africa has a long history of the integration process, which based on the historical development of this region, especially in after-war period.

The economy of Asia-Pacific region creates a barrier for the global integration processes. There is the domination of the earlier established type of bilateral relations, burdened by the legacy of hostility and deep political differences. Nevertheless, a new style of mutual cooperation is gradually formed among the countries. This style is characterized by the development of economic relations that overcome ideological barriers.

However, this issue is not univocal and that's why discussed by many authors. Some authors write that the East Asian community doesn't act in the interests of a corporate East Asian identity but pursue objectives of individual countries (Jones & Smith, 2007). During various periods of time authors noted a low level of economic integration in Northeast Asia, because of the lack of strong developed regional institutionalization processes. Asia-Pacific Economic Cooperation (APEC) is noted to be the most successful among various regional groupings (Higgott, 1998; Aggarwal & Yamazawa 2000; Ravenhill, 2002).

However, it is clear for many observers of East Asian regionalism that such integration is inefficient. The possibility of replacing the formal institutionalization processes by regional economic integration (Ernst, 1997; Encarnation, 1999), both inside and outside of the region (Dent, 2003) is considered.

The history of the institutionalization of the integration processes shows that significant efforts were made to build strong institutional environment for the development of regional economic relations in postwar East Asia and in Africa, but these efforts were not successful (Calder & Ye, 2004). The idea of establishing the Institute for Regional

Cooperation under the name “The Council of the North-East Asia Regional Economic Cooperation (CNAEC)” was first published by Lee (2000).

The fact that integration in Northeast Asia will lead to the increase of the potential benefits to the countries due to economies of scale through the expansion of the export industries (Milner, 1997; Chase, 2003; Pempel, 2008), reduction of the transaction costs between the contracting parties and diminution of the importance of political negotiations (Aggarwal & Ravenhill, 2001) is the subject of many economic discussions. The ambiguity of interpretations of the integration processes in Northeast Asia was the impetus leading to the necessity to assess the potential and the actual state of the integration processes in this region.

The reason for extensive economic evaluation is that integration in Northeast Asia could increase the potential economic benefits to countries due to the scale effect, by expanding the market for the export industries (Milner, 1997; K. A. Chase, 2003; Pempel, 2008), the reduction of transaction costs between the contracting parties, and the decline in the importance of political negotiations (Aggarwal & Ravenhill, 2001).

The core of North-East Asia is composed of China, Japan, and South Korea. These countries contribute to the framework of the “East Asian Community”, as well as to the security mechanism in North-East Asia (NEA).

## Methodology

The methodological framework consists of traditional methods, which are characteristic for the research of the objects of international relations. Thus, for example:

- method of historical analogies, which approximates the theoretical arguments to the current situation and is used to reveal the dynamics of Asia-Pacific region as a living, changing in time entity with all its consequences;
- method of comparative analysis, which allows on the basis of specific data observing the general features of Asia-Pacific Region’s relations with Russia;
- forecasting method that allows to identify the main trends and prospects of relations;
- systematic method, which shows the rate of development of relations and cooperation between Russia and Asia-Pacific region as a certain evolving system, highlighting its basic elements; and it was also analyses the integration process of South Africa.

For achieving this purpose, in this research, we use the functional analysis, economic, statistical, logical, conceptual analysis and others type of analysis, which allow constructing a complete system of modern Russian relations with countries of Asia-Pacific region and countries of South Africa.

## Results

**Development of integration process in South Africa.** At the beginning of the analyses of the global integration process, it’s obvious to identify the main aspects of

modern development of integration. Integration is the economic process of mutual adaptation, expansion of economic and industrial cooperation, pooling of national economies of two or more countries. The main problem of the international integration process is the creation of a single economic area within which it will ensure the freedom of movement of goods, services, capital and labour.

Thus, between two countries, there are a consistent, regular structural relationships during which countries moving away from economic and trade relations to forms of international co-production and closer financial cooperation. During this process gradually disappear a line between domestic and international markets and a new market of integration association develops. However, such situation occurs in the theory, in practice, this process is not so easy; there are many contradictions between national economic interests of the countries.

The integration process in Africa dates back to the beginning of 1950-1960s, the period of political independence. At that time it was created first integration unions, which was examined as a key area of economic development of African countries liberated from colonial dependence, it was the instrument of reform and integration of national economies into the world economy.

The important role in the process of initiating the integration agreements was played by the United Nations Economic Commission for Africa (ECA), which called for the country to provide the policy of import substitution in order to reduce dependence on the outside world and the “self-reliance policy”, it was the acceleration of economic development. Following the recommendations of the ECA framework of the Organization of African Unity (OAU, 1963) was based on the principle of regionalism and it was defined strategic goal of creating the Common African Union.

The next stage of integration process in Africa can be regarded as the Lagos Plan of Action (1980) the formation of the Pan-African common market by 2000 years, based on the gradual transition from a free trade area, and common market to economic union in the three sub-regions in East Africa and South Africa, Central Africa and West Africa. The core of this integration was elected the leading association unions - the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS) and the Economic Community of Central African States (ECCAS).

One of the latest African economic development plans is the New Partnership for Africa's Development (NEPAD), which aimed at promoting the mutual trade and investment relations, coordination of national economic policies.

The bases of NEPAD are two programs Millennium Partnership for the African Recovery Program (MAP) and the Omega Plan. The first program is aimed at resolving inter-African conflicts, attraction of investments, and financial assistance. The Omega Plan proceeds from the priority of development, such spheres as agriculture, education, health and infrastructure objects. The merging of the two programs has led to the development of a single program called the (New African Initiative (NAI), approved in July 2001 during the Summit of Heads of State and Government of the Organization of African Unity. The final version of the New African Initiative, appeared in October 2001 and it was renamed NEPAD.

During the period before 1990s integration unions in Africa were mainly focused on mutual economic cooperation, the formation of a large market, increasing the state's

role in economic development of a huge group of states. This period was named “new regionalism period in Africa”. It differed by increasing attention to the revival of the liberalization measures under the previously established groups, as well as the formation of new groups.

Integration unions in Africa were created in conditions of extremely low level of economic development of African countries, the low share of mutual trade, and the common type of monoculture export commodity structure, the low volume tax revenues. These factors determine the disintegrating and formal type of integration processes in Africa, low dynamic and static effect of ‘trade creation’, and the majority of unions differs from the effect of ‘trade diversion’. In such circumstances, regional integration is seen as the instrument of trade liberalization: the customs give about 30% of the revenue of the national budget, which hampers the liberalization process at the national level, and membership in this union imposes some certain obligations and it allows finding other sources of income instead of duties.

The first integration project, which remains the most successful in Africa appeared in the colonial period in 1910 the South African Custom Union (SACU). It consists of South Africa, Botswana, Lesotho, Namibia and Swaziland. After the achievement of political independence the agreement was signed again in 1969, but not by the colonial authorities, it was signed by sovereign countries. This union is almost a whole customs union with free movement of goods and free transit through the territory of South Africa, led by the leader - South Africa, has a significant impact on determining the principles of the common commercial policy. The four countries (except Botswana) are included in the common area of South African rand currency area.

Nowadays, it was registered 14 integration unions, which is very attractive for future cooperation of other foreign countries. The largest modern regional integration organizations were presented in Table 1.

*Table 1: The largest modern regional integration organizations of developing countries*

№	Name and date of organization	Members
<i>Integration organizations of Latin America</i>		
1	Latin American Free Trade Area, (LAFTA) – since 1960	11 countries – Argentina, Bolivia, Brazil, Venezuela, Columbia, Mexico, Paraguay, Peru, Uruguay, Chili, Ecuador
2	Caribbean Community (CARICOM) – since 1967	13 countries – Antigua and Barbuda, Bahamas, Barbados, Bellies, Dominica, others
3	Andian Group – since 1969	5 countries – Bolivia, Venezuela, Columbia, Peru, Ecuador
4	Southern Common Market (MERCOSUR) – since 1991	4 countries – Argentina, Brazil, Paraguay, Uruguay
<i>Integration organizations of Asia</i>		
5	Economic Cooperation Organization (ECO) – since 1964	10 countries – Afghanistan, Azerbaijan, Iran, Kazakhstan, Kirgizstan, Pakistan, Tajikistan, Turkmenistan, Turkey, Uzbekistan
6	Association of South East Asian Nations (ASEAN) – since 1967	6 counties – Brunei, Indonesia, Malaysia, Singapore, Thailand, Philippines



7	Economic Cooperation of BIMST – since 1998	5 countries – Bangladesh, India, Myanmar, Sri Lanka, Thailand
<b>Integration organizations of Africa</b>		
8	East African Community (EAC) – since 1967, and since 1993	3 countries – Kenya, Tanzania, Uganda
9	Economic Community of West African States (ECOWAS) – since 1975	15 countries – Benin, Burkina-Faso, Gambia, Gana, Gvinea, Gvinea Bisau and others
10	Common Market for Eastern and Southern Africa (COMESA) – since 1982	19 countries – Angola, Burundi, Kenya, Tanzania, Namibia, Mozambique, Uganda, Malawi, Rwanda, Zambia, Swaziland, Zimbabwe and others
11	Arab Maghreb Union (UMA) – since 1989	5 countries – Algeria, Libya, Mauritania, Morocco, Tunisia

**The process of global changes in migration flows in the XXI century.** During the analyses of the global integration process, it's necessary to identify the tendency of global changes in migration flows in the XXI century. Nowadays, Migration has become a more dynamic and complex phenomenon, which is connected with not only social and economic reasons. According to International Labour Organization's data, about a third of migrants in the world fall out of government control. Migration control is being passed from the Ministries of Labour to Ministries of Home Affairs in more and more countries. Thereby, the emphasis of the migration policy moves from labour market regulation of the national security.

Between 2005 and 2010, the global migratory flow increased by 1.8 percent annually. The growth rate of the migrant population in less developed regions was two percent, while in more developed regions this indicator was 1.7 percent. As a result, the number of migrants increased by 24 million people in 2005/10.

According to the estimations of the United Nations Organization, the Department of Economic and Social Affairs, the flow of 2.7 million people move from developing to developed countries every year. The south of the Sahara loses approximately 360 000 people annually as a result of migration. The real interest for demographers makes the variable growth in the size of the movement (migration), used to identify where the points of pressure are supposed to be in the future. It should be noted that in 2005/10 the net migration rate in Australia increased by 485 000 people, while in the US it increased by 4.6 million people.

In 1960 the number of international migrants in developing countries reached 44 million people, and in developed countries, it reached 32 million people (Table 2). If in 1960 more than 57% of all the migrants lived in less developed regions, in 2000 this number was only 37% (Migration Information Source, 2011).

*Table 2: International migration in the main regions, 1960 – 2000 years*

Main regions	The number of international migrants (millions)		Distribution of international migrants by regions (%)	
	1960	2000	1960	2000
World	75,9	174,9	100	100
Developed countries	32,1	110,3	42,3	63,1
Developed countries, not including the USSR	29,1	80,8	38,4	46,2

Developing countries	43,8	64,6	57,7	36,9
<b>Africa</b>	9	16,3	11,8	9,3
<b>Asia<sup>a</sup></b>	29,3	43,8	38,6	25
Latin America and the Caribbean	6	5,9	8	3,4
North America	12,5	40,8	16,5	23,3
Oceania	2,1	5,8	2,8	3,3
Europe <sup>b</sup>	14	32,8	18,5	18,7
Republics of the USSR	2,9	29,5	3,9	16,8

*Note:*

<sup>a</sup> *Not including Armenia, Azerbaijan, Georgia, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.*

<sup>b</sup> *Not including Belarus, Estonia, Latvia, Lithuania, Moldova, Russia, and Ukraine.*

The collapse of the socialist system gave an impulse to mass geographic migration in Europe and Central Asia; first of all, to transboundary movement of the population within the bounds of this region, migrant outflow from it, and a certain migrant inflow from other regions. The formation of many new countries in the space of broken-up USSR and Yugoslavia created a phenomenon of multiple “statistical migrants”, in other words, citizens who live in a county for a long time, but were born in another, and who could not move in fact, but at the same time would belong to the category of migrants in accordance with the UN procedures. Migration in Eastern Europe (including the Baltic States) and CIS countries is considered to be significant according to international standards. Most of the emigratory flows from Eastern European countries (42%) are directed to Western Europe, while the final destination for most CIS emigrants are other CIS countries (80%). The United Kingdom is becoming one of the leading countries of accepting migrants from countries that entered the European Union.

Nowadays the main points of migrant movement take place in Mexican-American, Chinese and Russian, and also European and Eastern European regions. The analyses of the migrant flows in the world scale were introduced in Table 3.

*Table 3: The main characteristics of migration flows*

<b>Flows direction</b>	<b>Characteristics</b>
From Asia to Western Canada	Canada turned out to be very attractive for professional emigrants from Asia. Many leave their families in Canada and fly back to work to Asia.
From China to the USA	Many people from Asian countries, especially from Fujian province in China.
From Canada to the USA	However Canada is one of the world's immigrant accepting countries traditionally, it also loses a large number of educated, professional people going to the USA.
From Mexico to the USA	It's one of the largest transboundary flows in the world. Out of 108 million people born in Mexico more than 10 million people live in the USA. Every year approximately 400 Mexicans die because of drowning or dehydration in the desert, mostly, while attempting to escape to the USA.
From Central America to the USA	Emigration from Central America to the USA has grown after the Civil War in the 1970s and the 1980s. By 1992 one million people (about 15% of the population) left El Salvador.
From the Caribbean to the USA	The Caribbean states have a certain emigration culture. Cuba is the main exporter: 10% of people born in Cuba live in the USA now. Other main sources are the Dominican Republic, Jamaica, and Haiti. Most Haitians go to Bahamas, and then try to enter the US by sea.

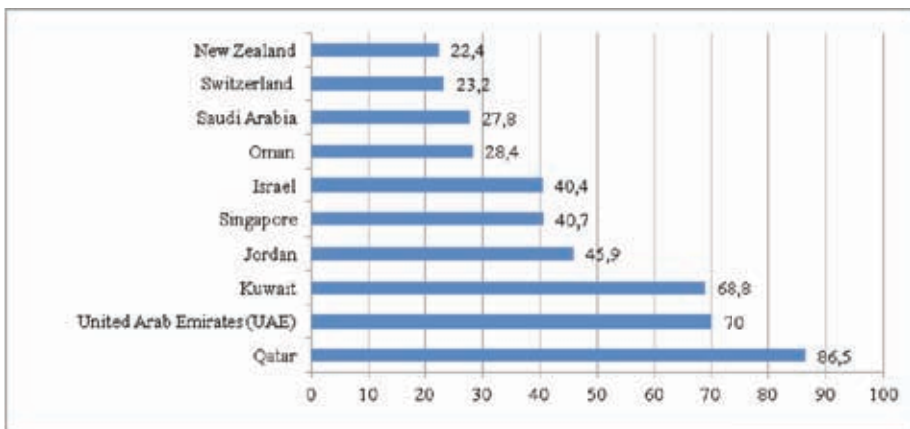
Immigration to Venezuela	The “oil treasure” of Venezuela attracts many immigrants.
From South America to Japan	Japanese are ready to accept people who respect Japanese customs and whose grandparents emigrated from Japan to Brazil and Peru. Japan has about 287 000 Brazilians and also 56 000 Peruvians. In Hamamatsu city, there are 19 000 Brazilians, many of whom found work at plants in the industrial city.
From Paraguay to Argentina	Paraguay is one of the poorest countries in South America. Neighboring Argentina is one of the alternatives, where many educated women work as domestic workers.
From Bolivia and Peru to Argentina	People from neighboring for Argentina countries work as construction workers, domestic workers, or work under inhuman conditions at garment factory in Buenos Aires.
From South Asia to the UK	Indian subcontinent was an important source of immigrants to the UK. In the 1960-s British government has begun to close the doors, so that most of arrived again unite with other family members nowadays.
From China to Europe	Many Chinese traveled by air to Moscow, and then, by contraband way, to all the Eastern Europe in order to reach Western countries.
From Turkey to Germany	First flows from Turkey to Germany were noticed in the 1970s as guest workers. In 2005, 7 million people living there were foreigners, and more than one fourth of them were Turks. Most of the migration nowadays is caused by reunion of families.
From Morocco to Spain	About 2 000 people a year die, crossing the Mediterranean Sea in their way to Europe.
From Africa to France	The largest source of immigrants in France is its former colonies in Africa. In 1998 out of 138 000 immigrants, 72% were from Africa, mostly from Algeria, Morocco, and Mali (in the past - Zaire).
Western African flows	Côte d’Ivoire (the country in Western Africa) attracts workers for their plantations of cocoa and palm oil. By the mid-1990s, about one fourth of the work force was immigrants, half of whom were from Burkina-Faso (the country in Western Africa).
From Zimbabwe and Mozambique to South Africa	The estimations of the illegal in South Africa vary from 2 to 10 million people. Nowadays most of them are from Zimbabwe.
«White flight» from South Africa	After bringing in the black majority rule, many whites left South Africa. Australia is one of the most popular destinations.
From Sri Lanka to Persian Gulf States	Every year 200 000 people from Sri Lanka cross the borders in search for work. Two thirds of them are women, migrating as housemaids to the Near East, as a rule.
From Egypt to Persian Gulf States	Egypt was one of the first exporters of workforce to reach oil countries of the Persian Gulf, from the oil boom in 1970 to the present day.
From South Asia to Persian Gulf States	In 2002 there were 3.1 million Indians engaged in oil export in the countries of the Persian Gulf, including 1.5 million people in Saudi Arabia, 950 000 in the UAE (Dubai), and 300 000 in Oman. Half of these migrants are from Kerala, 1.8 million people are from Bangladesh, one million people are from Pakistan, and 900 000 people from Sri Lanka.
From Burma (country in South East Asia) to Thailand	Thailand has about one million immigrants, most of whom are agricultural workers from Burma (Myanmar).
Emigrants from South Asia moving to the East	India, Bangladesh, and Pakistan send many workers to South-East Asia, particularly to Singapore, as a rule, for working on building sites.
From Indonesia to Malaysia	Indonesia has about one million illegal workers from Malaysia, most of whom are men working on plantations, but there are also women who work as housemaids.
Australia diversifies	Asian migration to Australia from China, Vietnam, Philippines, and Indonesia makes this country more ethnically diverse. Many Asians and other migrants arrived also by boats as refugees.
Flows between China and Korea	In the end of 2006, Korea had 186 894 illegal workers, most of whom were ethnic Chinese and Koreans. North Koreans migrate also to China and then, often go to South Korea.

From South America to Japan	Japan used a relatively small number of foreign workers. People of Japanese origin were preferred, and their main source was the Nikkei Company in South America. Japan kept about two million foreigners by the end of 2005. The largest groups are: Koreans (599 000), Chinese (520 000), Brazilians (302 000), and Philipinos (187 000).
From India to the USA	India has become one of the main sources of “computer talents” for the USA. About two thirds of H-1B visas, issued for professionals in 2006, were given to Indians.
Wandering Philipinos	More than 8 million Philipinos abroad make up almost 10% of the population. Almost 3 000 Philipinos a month go for work abroad, which is 100 people a day, 60% of whom have already worked abroad earlier. The USA is one of the main points of arrival; however, many Philipinos work in other countries, for example, in Asia, as housemaids (in Singapore and Hong Kong).
From the UK to Australia	Australia has a large British contingent. Out of 4.8 million people born in 2005, 23% arrived from the United Kingdom.
From the UK to New Zealand	Till 1986 New Zealand prefers traditional countries-sources, first of all, the UK. In 1996 population census, 75% of the population called themselves belonging to the European ethnic group.

According to the analyses the main flows are concentrated in the European part; Australia and New Zealand are also in priority. Asian migration, from China, Vietnam, Philippines, and Indonesia, to Australia, makes this country more ethnically diverse. But most people arrive there by boats and are refugees by status.

Let’s look also at ten countries with the biggest weight of foreign migrants in the total population (Figure 1).

*Figure 1: Countries with the biggest weight of foreign migrants in the total population, 2011 year (in percent)*



Qatar takes the first place, having 86.5 %, the second country is the UAE (70%), and the third is Kuwait (68.8%).

Based on the conducted research, we determined two leading countries with the biggest number of migrants during the analyzed period. These are the USA, with the number of 7 980 thousand people from 1995 to 2000, and Russia, with the number of 2 220 thousand people from 1990 to 1995. What about 2005/10 period, the USA took

the first place by the number of migrants with the 5 050 thousand people, Spain was the second with 1 750 thousand people, and Italy was the third with 1 650 thousand people. We shouldn't forget about Canada, which attracts many migrants with beneficial conditions of purchasing real estate and the following easy way of getting the citizenship.

The main structural changes in the international migration should be noted. First is that during the last decades, Western and Eastern Europe have become the points of destination for immigrants from Asia, the Near East, and Africa, and at the moment of the USSR collapse in the 1990s, Western Europe went through the migration flows from Eastern Europe and the former Soviet Union. As a result the net migration in the European Union increased from 200 thousand people in the 1980s to more than one million people in 1989/93, but then it decreased again by 640 thousand people in 1994/98.

The second key structural change was an increase of immigration from Asia and the beginning of immigration from Africa. Asian migrants arrived from India, Pakistan, China, Korea, Philippines, Vietnam, and other places. The example of Asian immigration could be observed in Europe, with African immigrants and immigrants from the Near East.

**Development of integration process in Asia-Pacific Region and Russia.** During the pace of economic development and rapid economic growth in the Asia-Pacific region have led to the need to create effective inter-regional integration groups (АЕС, ASEAN, ADB, SAARC, ESCAP, ASEM, ARF). Yet, the operational success of the currently existing organizations could be called into question. The analysis showed that the stated objectives have not been fully achieved by any of the organizations. Moreover, if in the social, political, and cultural spheres there was work to a larger extent, there is still minimal cooperation in the economic sphere.

It is necessary to formulate distinctive features of NEA in order to estimate the processes of integration occurring in NEA and define perspectives of the given region.

Firstly, this region distinguishes sharp jerk in economic growth for the short period of time. It determines non-developed contour of partner relations.

Secondly, on the background of non-developed contour of partner relations often changes of integration processes are observed - growth of rates of saturation of regional space by new partner agreements. The region becomes more and more “integration-intensive”.

The third feature - distinction or similarities in branch structure of gross national product do not render the influence on an increase of volume of mutual trade between countries - partners. The fact of joint participation of the countries of Northeast Asia (NEA) in one trading block is not reflected in any way in volume of trade between these countries. It proves that the neighbouring countries will not inevitably have the considerable volume of mutual trade.

It argues that many trading blocks are results of the political decision, but not objective economic process. That defines the fourth feature of integration processes in the region. Especially brightly it can be looked after on an example of the Tumen River Project, which declared as the political decision, without the proved economic preconditions.

For sustainable integration processes are necessary, so-called initial factors, - historically formed trade relations, the sizes of the countries, purchasing power on the basis of which strong trade unions can be build up.

Today in NEA we observe the countries, which actively compete among themselves in the international market and do not consider each other as strategically important partners. Cooperation in the solving of problems of peace and security, preservation of the environment in a region does not necessarily demand integration groupings, in particular, trading preferences.

The fifth feature – asymmetry of partners in integration of Northeast Asia. The size of their markets and a level of technology are not balanced. It is impossible to attribute to a category of the symmetric countries, for example, Russia, China, Japan, and the Republic of Korea. The intensification of regional integration has strengthened amplitude of deviations of subjects of integration on their weight categories. Economic asymmetry of partners has considerably increased because of an integration policy of China, actively began to develop regional trade. Reached the appropriate agreement with Hong Kong, China is aimed to establish three foreign agreements with Japan and Korea and negotiates for the similar agreement with ASEAN.

Integration changes the model of international division of factors and, first of all, natural resources. The relative advantages of possession of natural resources are replaced by advantages of those who can get and use them. It is known that the countries with rich natural resources lag behind in rates of economic growth. In that case, there is a question: whether it is necessary for Russia to be guided by an integration vector if the structure of export will cause delay of rates of economic development.

The regional future of Russia becomes more predicted and less arbitrary, not only geographically, but also economically. We estimate statistically the factors influencing on volume of export and import on the example of countries - participants ASEAN 5 and NEA (China, Korea, and Japan). The basis of the analysis is the gravity model (trade between two countries depends on their size (GNP, population, territory, etc.) and operational costs (distance between the countries, cultural similarity etc.).

Being based on preliminary results of test of the gravity model it is possible to draw some conclusions on the importance of some factors.

First of all, it is necessary to pay attention that the variable reflecting participation of the countries in ASEAN appeared insignificant, i.e. the fact of joint participation of ASEAN countries in one trading block is not reflected in any way in volume of trade between these countries. The same conclusion can be made as to variable reflecting distance between two countries that supports the conclusion that the neighbouring countries do not necessarily have the significant volume of mutual trade. Gross national product of the partner and a share of a secondary sector in gross national product of the country do not influence significantly on volume of import. In other words, distinctions or similarity in branch structure of gross national product do not render influence on the increase of volume of mutual trade between countries ASEAN 5 and NEA and their partners.

Estimated functions look as follows:

$$\ln IMP = \alpha + \beta_1 \ln GDP^H + \beta_2 \ln GDP^P + \beta_3 \ln PGDP^H + \beta_4 \ln PGDP^P + \beta_5 \ln SHAREIMP + \beta_6 \ln PS^H + \beta_7 \ln PS^P + \beta_8 \ln SS^H + \beta_9 \ln SS^P + \beta_{10} \ln DIST + \beta_{11} \ln D + \varepsilon, (1)$$

$$\ln TTRADE = \alpha + \beta_1 \ln GDP^H + \beta_2 \ln GDP^P + \beta_3 \ln PGDP^H + \beta_4 \ln PGDP^P + \beta_5 \ln SHARETTRADE + \beta_6 \ln PS^H + \beta_7 \ln PS^P + \beta_8 \ln SS^H + \beta_9 \ln SS^P + \beta_{10} \ln DIST + \beta_{11} \ln D + \varepsilon, (2)$$

Where  $\alpha$  - a constant (a constant variable), and  $\varepsilon$  - regression balance.

As explaining variables, the following variables were chosen:

$GDP^H$  – GDP of country A,

$GDP^P$  – GDP of country B,

$DIST$  – distance between A and B,

$PGDP^H$  – GDP per capita in A,

$PGDP^P$  – GDP per capita in B.

$SHAREIMP$  ( $SHARETRADRE$ ) - a share of import (or the sums of export and import) the countries A from the country B in a total volume of import (or the sums of export and import) the countries A,

$PS^H$  - a share of initial sector in cumulative gross national product of the country A,

$PS^P$  - a share of initial sector in cumulative gross national product of the country B,

$SS^H$  - a share of a secondary sector in cumulative gross national product of the country A,

$SS^P$  - a share of a secondary sector in cumulative gross national product of the country B,

$D$  - the fictitious variable reflecting participation of both countries in one trading block (the variable accepts value “1” if both countries are ASEAN participants, and value “0” otherwise).

Besides standard variables (i.e. GDP and distance), directly reflecting the size and transport costs, we chose parameters GDP per capita (1) reflecting the general level of economic development, the level of wages in the country (2); indexes of a share of primary and secondary sectors in GDP (3), showing a level of industrial development of the country; and a qualitative variable of participation of the countries in the uniform trading block (3). Results of the estimation of mentioned regressions are submitted in Table 4.

Table 4: The Results of the gravity model estimation

Regression (1)			Regression (2)		
Variables	Estimated coefficient ( $\beta_n$ )	Criteria Studenta <sup>1</sup>	Variables	Estimated coefficient ( $\beta_n$ )	criteria Studenta <sup>1</sup>
GDP country A	20,07	3,272***	GDP country A	20,41	3,761***
GDP country B	-24,59	-4,476	GDP country B	-15,46	-3,087
Distance between countries	0,24E+11	0,477	Distance between countries	0,32E+11	0,577
GDP per capita in country A	-18,75	-3,053***	GDP per capita in country A	-19,36	-3,562***
GDP per capita in country B	25,23	4,600***	GDP per capita in country B	16,08	3,219***
Share of import of A from B in total import of A	0,95	43,995***	Share of import of A from B in total import of A	0,90	31,969***
Share of primary sector in GDP of A	-0,01	-0,276	Share of primary sector in GDP of A	-0,19	-3,135***
Share of primary sector in GDP of B	0,33	4,760***	Share of primary sector in GDP of B	0,28	4,509***

Share of secondary sector in GDP of A	-0,27	-1,831	Share of secondary sector in GDP of A	0,03	0,198
Share of secondary sector in GDP of B	-0,55	-2,997***	Share of secondary sector in GDP of B	-0,52	-3,114***
Participation of countries in one block	0,45E+10	0,094	Participation of countries in one block	-0,35E+11	-0,657
Number of observation	712		Number of observation	712	
Index of determination ( $R^2$ )	0,9869		Index of determination ( $R^2$ )	0,9867	
Fisher's criteria (F)	49,613		Fisher's criteria (F)	51,972	

<sup>1</sup> – Meaning of coefficient when  $\alpha = 0,01$  marked \*\*\*, when  $\alpha = 0,05$  marked \*\*.

The empirical analysis of countries ASEAN 5 and NEA has confirmed that the formation of the trading block does not increase the volume of mutual trade. Membership in one trading union is the secondary factor in the development of mutual trade, which can be amplified with a number of initial factors, such as historically formed trade relations (in our regression it is reflected by a variable « a share of import of the country A from the country B in total volume of import of the country A), the sizes of the countries (a variable «gross national product»), purchasing power (a variable «GDP per capita»). These variables reflect the scale of country market and the market of the partner, and share of income spends for import.

The development of integration processes has the affect of indicator of economic openness of the country or region.

Asia-Pacific region has a great experience of economic growth that cannot attract the attention of researchers in the world. Nowadays, the important parameter has become the openness of the economy (economic openness). In general, it can be identified as the level of involvement of the economy of the country or region in the world economy. Its quantification is given by the product which produced in the country with that part of it which is taken out and with the amount of goods and services, which is imported into the country and the region. Therefore, the summarizing quantitative measure of economic openness is the percentage ratio of exports plus imports to GDP, or the share of foreign trade as a percentage of GDP. We can call this indicator of openness as the quota indicator because it is calculated by the relative sizes of export and import quotas - the ratio of the volume of export and import to GDP. It should be noted that this indicator has certain limitations and suggests addition other indicators (indicators of the capital movements). But, considering the dominant role in the trade in the foreign economic relations of this indicator is the most significant.

We calculated the results of the comparative analysis of indicators of economic openness of regions. Before the crisis in 1997 year, Asia-Pacific region was ranked as the most open one in the world (Table 5).



*Table 5: The economic openness of the regions (before the crisis in 1997)*

Regions	Economic openness, %
South-East Asia	130
North-East Asia	60
Central and Eastern Europe	55
Russia	40
Latin America	30
G-7	28
India	25

*Sources: Emerging market indicators. 1996. The Economist, May 11, p.116.*

Many experts believed that there was a high level of economic openness of the nine countries in Asia-Pacific region (Hong Kong, Singapore, Taiwan, Korea, Malaysia, Indonesia, Thailand, China, Vietnam) provide a high rate of economic growth of these countries during more than twenty years. These countries continued to develop at relatively high rates - more than five per cent of GDP growth in the period from 1990 to 1996, before the period of crisis in Asia-Pacific region.

We say about the relatively high level compared to other regions of the openness of Asia-Pacific region. From the end of XIX century Hong Kong and Singapore have always been the most openness economies in this region. During the 1960s, Japan, Korea and Taiwan were among the first to reduce the customs trade barriers and reduce restrictions on foreign exchange markets. The ASEAN countries (Malaysia, Thailand, Indonesia, Philippines) followed by the same way of liberalization of foreign trade, but a bit later (in the 1970s). The researchers noted that although there is no comparable data, but in 60-70 years, the economies of Asia-Pacific region were more openness than other developing countries.

Foreign trade liberalization and the increasing level of Asia-Pacific region's openness continued in the 1980s. Its role in improving the overall level of openness in the region and has played an event of changing the Chinese economic strategy and its active involvement in the world economy. But an even more significant role in achieving a higher opening in the region was played a one-sided nature of the liberalization of its external relations. During this period, it was developed the concept of openness regionalism and East-Asian-style integration, as opposed to the concept of discriminatory regionalism and North American-style integration. These concepts are the different approaches to the payment matrix, and the border between them is through a unilateral reduction in foreign trade barriers, and therefore anticipating growth of openness of the economies of Asia-Pacific region.

However, in the late 1980s liberalizing included almost all the other developing countries in the world, and many developed countries reduced trade barriers by the unusual way, unilateral procedure.

It is likely that in this period the quota indicator of economic openness (ratio of exports and imports to GDP) loses its fundamental role. Since the late 1980s, it has appreciates the openness of the economy solely from the functional point of view, from the perspective of

functional openness. This position is due to the “functioning” of foreign trade, necessary for the economy of the country and it is estimated to be the part of GDP that goes through the channels of foreign trade. This position which was occupied by the country has taken in the international division of labor and other resources in accordance with the relative availability of resources by the Heckscher - Ohlin theory (Appleyard, Field & Cobb , 2006).

But from the moment when the functional openness of the economy is defined, the measure of its dependence on foreign economic relations developed further reduction of trade barriers may prevent the growth of quota indicator. That is why the most liberal economy of developed countries has the lowest rates of openness on the quota indicator. By the incorrect use we can say when we indicated the fact that the present performance of the economy of North Korea is more open than the economy of Japan and other developed countries. It should be said about the necessity of another dimension of economic openness - the institutional openness. In general, the institutional openness is the openness of the institutions of the country to the outside world. If we highlight the economic aspect of openness, the first thing we should have in mind is such institutions as trade, investment and foreign exchange regimes of the country.

## Conclusion

What is it necessary for Association to turn into economically significant? It is impossible to answer this question shortly and unequivocally. It is obvious that the principle of “laissez-faire” will not solve the problem. We need active participation of the governments of all countries in regulation of private and public sectors. Despite all the efforts of ASEAN participants to decrease tariffs and liberalize markets for foreign business since 1995, there is a plenty of non-tariff barriers. Therefore, for the given countries the most logical will be development of cooperation in the field of unification of customs rules and the other acts regulating trading activity.

It is necessary to move aside multilateral, instead of regional integration. A position of authors - it is more effective to be included in the integration process not on the basis of bilateral agreements, especially with the country surpassing on the sizes of the market and a level of technologies, but on a basis the Pan-Asian zone of free trade, ideally the Pan-Asian-Africa zone of free trade.

Besides economic obstacles to the creation of the Northeast Asian trading block in the near future there are political reasons, in particular, in relations between Japan and China. However, according to calculations of some experts, creation of this zone of free trade with participation of Japan, South Korea and China will be favorable to all countries. Certainly, Japan and South Korea will win from this union considerably, but for China the positive effect will be significant.

We can say that the serious researching work on unification and the liberalization of domestic markets is required otherwise and the unions will be extremely political and will not bring any economic benefit.

North-East Asia is far away from the integration process for a long time in Asia-Pacific region. In this sub region bilateral type of relations burdened with a heritage of animosities and deep political distinctions dominates. Nevertheless, new style of mutual economic cooperation between the countries is gradually formed. The formation of such

style began with the leading role of a private sector in Japan, and then were South Korea and Taiwan, and then other countries of the sub region have followed.

The potential union between China, Japan and South Korea will be economically and politically significant with its share in world GNP about 20%. The index of trading complementarity (ITC), which reflects the electiveness of trade between the certain countries in comparison with world trade, proves this conclusion. ITC for NEA countries exceeds the level of world trade; that is why regional trade will promote regional integration, considering the fact that the NEA countries do not participate in other sub regional agreements. The potential union of China, Japan and South Korea will cover about their half of the trade, which is carried out by these countries, so the preferential agreement on trade will bring to the countries essential benefit. However, it should be taken into consideration that the trade volume of Japan with USA exceeds the total amount of trade of Japan with its potential partners. China with South Korea has also the significant volume of trade with USA: totally 23.8% of import and 15% of export. Therefore, at a deepening of cooperation in the framework of the NEA, it is necessary for participants to take into account American factor.

Certainly, there is a question of a role of Africa in this global integration process. During our analyses we identified the obvious historical isolation of this region from main integration process. But based on the research data of migration flows in Africa and other regions we can say about the beginning of global changes in world polarization. African countries became more attractive for cooperation and collaboration of Asia-Pacific Region countries. During our research, we follow the historical period of integration unions in Africa and can say about its intensification.

It is necessary to note that African integration unions have the similar features of development as a lot of Asian unions had at the beginning stage of its development. And nowadays, in the period of active world globalization and integration tendencies, it's important not to lose the possibility of creating the integration union between the countries of Asia and Africa, which has mutual interests.

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## THE CONCEPT OF SOCIAL CAPITAL IN ECONOMIC THEORY

### Abstract

*Economic research at the turn of the century has been explicitly dealing with the social capital, as a special form of capital. It is a relatively new concept, which is why it is not surprising that there is no generally accepted term to denote this phenomenon. The social capital means the economic benefit of the society, which can be reached with the help of communication, cooperation, and trust among the entities in the given socio-economic environment. The social capital is most often regarded as the ability of social structures and attitudes that support them to increase the effectiveness of collective action. The social capital is a connective tissue, a glue that helps people to use available resources for creating mutual benefits. Its existence is a prerequisite for economic growth and development. The components of the social capital are social ties and networks that can be transformed into economic capital.*

**Key words:** capital, social capital, physical capital, natural capital, human capital

**JEL classification:** J24, O35

## КОНЦЕПТ ДРУШТВЕНОГ КАПИТАЛА У ЕКОНОМСКОЈ ТЕОРИЈИ

### Апстракт

*Крајем претходног и почетком овога века у економским истраживањима све се децидније говори о друштвеном капиталу, као посебном облику капитала. Ради се о релативно новом концепту и стога није чудно што не постоји опште прихваћено појмовно одређење овог феномена. Друштвени капитал означава економску корист друштва до које се долази захваљујући комуницирању, сарадњи и поверењу између појединих субјеката у посматраној друштвено-економској средини. Најчешће се о друштвеном капиталу говори као о способности друштвених структура, и ставова који их подржавају, да повећају*

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*ефикасност колективне акције. Друштвени капитал је везивно ткиво, лепак који помаже људима да расположиве ресурсе ставе у функцију унапређења заједничке користи. Његово постојање је предуслов привредног раста и развоја. Компоненте друштвеног капитала су друштвене везе и мреже које је могуће трансформисати у економски капитал.*

**Кључне речи:** капитал, друштвени капитал, физички капитал, природни капитал, људски капитал

## Types of capital in economics

Some economic theorists imply different concepts when considering capital. The capital often refers to money and various forms of securities, and sometimes to physical assets that are used for further reproduction (machinery and equipment, buildings, inventories). In recent times, capital has been increasingly connected with natural resources which individual countries have.

Samuelson and Nordhaus believe that capital is one of the three main factors of production (in addition to land and labour), and that it is made of manufactured goods that are re-used as production inputs for further production (Samuelson & Nordhaus, 2014). In this regard, they see capital in terms of its physical form, i.e. they take into account capital goods which include infrastructure. According to them, capital goods have features of production inputs, but also of final production outputs.

Mankiw identifies capital with stocks of equipment and structures that are used to produce goods and services (Mankiw, 2012). This theorist believes that the key feature of the capital is that it is a produced factor of production.

In presenting his ideas regarding the concept of sustainable development, Robert Solow sees production factors as involving, in addition to labour, the natural capital, i.e. natural resources, and the work-produced capital, which includes: a) physical capital (buildings, equipment, machinery, etc.) created through investment, b) human capital in the form of acquired knowledge and experience, with which individuals participate in the production processes, and c) intellectual capital, as the scientific, technical, and, in the broadest sense, cultural resource which human society at a given time has (Solow, 1986).

A number of studies make a distinction between capital that is a “gift of nature”, i.e. natural reality, and forms of capital derived from the stock of accumulated and creative activities of human beings (Drašković, 1998).

The founder of the theory of social capital, Bourdieu, makes a distinction between three types of capital: economic, social, and cultural-symbolic (Bourdieu, 1972; 1986). Economic capital is characterised by the power of direct conversion into money, and is institutionalised in the form of property rights.

Coleman, as undoubtedly one of the leading authorities in the previously mentioned theory of the social capital, also distinguishes among three types of capital: physical (the capacity to develop tools and production), human capital (the capacity to develop knowledge and skills of individuals), and social capital in terms of the capacity to involve individuals in social ties (Coleman, 1988; 1994). Physical capital refers to

physical objects, the human capital to attributes of individuals, and social capital to links between individuals, i.e. social networks and the norms of reciprocity and trustworthiness that arise from them.

During the last decade of the previous century, the concept of capital in the economic literature has been, in terms of categorisation, significantly expanded. In fact, decades-long dominant opinion, according to which capital includes only visible resources, has been modified, to expand its scope to intangible resources, such as human and social capital. Unlike physical capital, which is completely tangible, and expressed in the visible material forms, human capital, expressed in the skills and knowledge acquired by individuals, is less tangible, and social capital, which exists only in the relationships between people, is the least tangible (Cvetanović & Despotović, 2014). Quite a number of authors, however, extend the complex of capital, by including many other forms, such as institutional, organisational, cultural capital, and so on.

Increase in each of the above-listed forms of capital requires the time needed to create and maintain the capital, and to directly and indirectly contribute to economic growth. From the standpoint of economic growth of the country, it is necessary to view capital as a collection of physical, human, financial, and other resources required for production. This approach makes it possible to better understand how different forms of capital are combined in order to achieve results, and how these same resources can be substituted or complemented.

Figure 1: Types of capital



The classification of capital into physical, natural, human, social, and financial capital has a special importance and suggests complexity of the research into the ways and methods of its quantitative increase and qualitative improvement (Figure 1). Regardless of the form of capital, it is important that it: a) contributes to the production of goods and services, i.e. economic growth and development, b) brings profit, and c) represents input in the process of creating economic value (Cvetanović & Mladenović, 2013).



## The content and elements of social capital

The social capital is the capital of cooperation, joint action, mutual trust, and mutual assistance, which are formed in the course of economic relations between individuals. It cannot be privately owned and has the attributes of a public good. It is not directly observable because people carry it inside. Different environments support different forms of social capital, resulting in their different economic evaluation.

Economists find the origin of the concept of social capital in the work of Adam Smith, particularly bearing in mind his analysis of the importance of the division and specialisation of labour (Smith, 1776). In his work, Smith emphasises the importance of personal freedom in the creation of wealth of individual nations, claiming that the virtues of individuals are not necessary for the efficient functioning of the economy as a whole. Since individuals continually express the desire to maximise their usefulness, distrust necessarily becomes the basic postulate in analysing the behaviour of individuals as economic agents.

Social capital consists of institutions, relationships, attitudes, and values that govern interpersonal interactions and contribute to the wider economic and social development. It is largely the result of the legal, political, and institutional environment, in which economic actors operate, i.e. perform their functions and realise objectives. It is the capital of permanent, and, to some degree, institutionalised relations between individuals and organisations, which facilitate activities and contribute to the creation of economic value.

The literature presents views on the basis of which only participation in formal organisations makes social capital. However, there are also diametrically opposed reflections and opinions, according to which even sporadic participation in social movements is a component of social capital.

Coleman, one of the creators of the theory of social capital, analyses this complex through its functions (Coleman, 1988; 1994). He states that social capital allows individual successes since individuals derive benefit from it. It is a special form of public good that is potentially available to everyone involved in the system of social ties and relationships.

According to Putnam, social capital consists of social attributes, such as trust, norms, as well as the most diverse networks that can improve social efficiency through coordinated action (Putnam, 1993; 1995). Relations between people have a value and potential for development, both for individuals, who are involved in many social ties, as well as for groups and the entire community. Putnam makes a distinction between bonding and bridging social capital. Bonding social capital represents the power of relations, in which people express concern and support each other (similarity by gender, age, ethnicity, race). Bridging social capital designs relations between different social groups, allowing individuals to acquire certain skills outside their usual group.

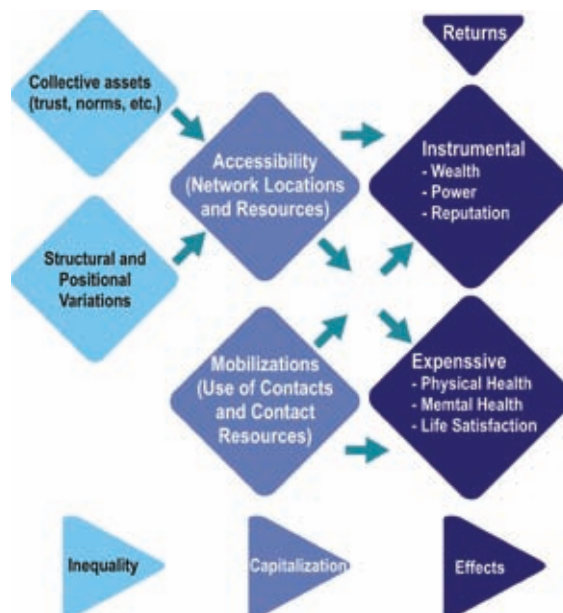
At the end of the last century, the World Bank made a significant contribution to the development of research studies and the promotion of the concept of social capital in the field of economics. The World Bank defines social capital as the institutions, relationships, attitudes, and values that govern interactions among people and contribute to economic and social development. Social capital refers to the presence of trust, norms, and social networks that enable social action for the benefit of both individuals and

society as a whole. Stocks of social capital in society are proportional to the number of social networks and intensity of social relations (World Bank, 1998).

The most important elements of social capital are social networks, social norms, trust, and reciprocity. These elements enable people to achieve a synergistic effect through joint action and the creation of various business partnerships. In other words, it relates to the characteristics of social organisations, such as networks, norms, and trust, which facilitate coordination and cooperation in order to arrive at a common benefit. “Social ties and relationships, which form the basis of social capital, open up opportunities for access to different resources. Resources that can be created with the help of various social ties are diverse: information, ideas, business opportunities, recommendations, advice, capital, etc.” (Golubović, 2007, p. 164).

Lin suggests a model, as an initial step in the theoretical consideration of social capital. As seen in Figure 2, the model includes three blocks of variables in the causal sequences (see bottom of the picture). One block represents the prerequisites and precursors of social capital: factors in the social structure and the position of each individual in the social structure that can facilitate or limit the investment of social capital. The second block represents the elements of social capital, and the third block represents possible reverse effects of social capital (Lin, 1999).

Figure 2 – The elements of social capital



Source: modified according to Lin, 1999

Literature sees human and social capital as intangible forms of capital. Both types of capital are developed in close interdependence. Increase in human capital significantly corresponds with the development of social capital. At the same time, social capital is an important and indispensable factor in creating and increasing the efficiency of human

capital. Moreover, there are many authors that see certain attributes of social capital as the components of human capital.

The fact is that each production activity involves social, in addition to physical and human capital. Social capital is linked to groups, not individuals. Associating with other individuals allows collective action. Through various organisations, associations, social networks, etc. individuals gain experience of cooperation, establish personal contacts, and generate interest, which cannot be achieved solely by individual action. This component of capital is associated with trust and reciprocity.

Some forms of human capital (knowledge of chemistry and physics, for example) can be used for destructive purposes (production of nuclear bombs, terrorism), while others can have extremely negative social consequences. The negative consequences of social capital include various forms of nepotism, corruption, organised crime, ethnocentricity, etc.

The three most common forms of social capital are: structural, relational, and cognitive social capital. Although these forms of social capital support each other, they can also exist independently from each other.

Structural social capital consists of various networks, associations, and institutions, as well as the rules and procedures they establish. Relational social capital indicates the quality of connectedness. Cognitive social capital consists of attitudes and behavioural norms, shared values, trust, and reciprocity.

## Social networks

Networks are a component of social life, and they allow stakeholders to efficiently access the realisation of a large number of common goals. Based on an almost unanimous opinion of researchers, they represent an important precondition for the creation of social capital (Stokman, 2004; Barr, 1988).

The process of creating social ties is an important feature of the concept of social capital. Individuals acquire social capital by participating in informal networks, registered organisations, various associations, as well as numerous social movements.

Social capital is actually created, maintained, and increased by the core features of social life, formal and informal, horizontal and vertical network of relationships among individuals, the norms that regulate them, and established relationships of trust that allow individuals to work together more effectively in the realisation of common objectives. Membership in different organisations provides opportunities for individuals to develop common interests and adopt common norms, resulting in a higher level of trust and understanding among people. By participating in numerous networks and relationships, individuals increase their chances of realising certain rights or benefits in a more efficient way.

Social capital refers to ties within and between social networks. Social networks have a value that expands opportunities for the growth of productivity through human capital (at individual and collective levels) and achievement of fulfillment of individuals.

It is possible to distinguish a number of different social networks. On the one hand, there are personal networks and networks of enterprises, with participants in the immediate environment; in this regard, relationships, although occasionally commercial,

tend to be informal and casual. On the other hand, local production systems are a special type of network, formed on the basis of physical and commercial relations, predominantly based on trust.

The network can be defined as a system of relationships and/or contacts that connect companies and participants, and whose contents may be related to material goods, information, and technology. From the aspect of economic activity, the network is a set of relationships between companies and entrepreneurs, which facilitates the exchange of goods, services, and information. The concept of network refers to transactions in terms of reciprocity. In addition, the concept of network includes independent relationships among participants and companies.

Networks are related to systems of multiple interconnections and the responses and reactions of firms and individuals. They are characterised by a series of weak ties, whose interaction strengthens the network, through access to information, interactive learning, and diffusion of innovation. Relations between the companies and the participants may be asymmetrical, with the hierarchical nature, when power becomes a functional element of network performance. They can be formal, when they are explicitly associated with decisions concerning the strategic goals of individuals and organisations. However, they can also be informal, i.e. of spontaneous or tacit nature. The former refer to the relations among individuals and organisations such as banks and service companies, while the latter refer to their interaction with family members, friends, work colleagues, etc. Networks between firms can also apply to commercial transactions, i.e. to the exchange of goods and services, which facilitate relations with suppliers and customers.

The presence in networks increases the chances of achieving certain goals. In this regard, informal networks involve contacts with family, neighbours, colleagues, and friends who may belong to the same or a different generation, status, or national and confessional groups. Formal networks of connections involve the presence and activity in political and civil society organisations. As a rule, simultaneous presence of several organisations strengthens the network of connections and increases social capital.

Based on a narrower view of social capital, this complex includes the creation of horizontal connections between people, which consist of social networks, and their respective norms, affecting the economic and social development. Social ties can increase productivity, by reducing the cost of certain economic activities.

In the economy, networks appear as informal ties (institutions) in the already formed formal relations, which complement, enrich, and strengthen existing ties and relationships. The most important features of the network in the economy are related to trust, responsibility, and accuracy.

Entrepreneurial network is a personal and business network formed by entrepreneurs in order to realise their entrepreneurial venture. It includes ideas, instructions, business opportunities, easier access to financial capital, trust, cooperation, power, influence. At the stage of generating ideas and starting a business, an entrepreneur is focused on personal networks of family members, relatives, and friends. After that, the entrepreneur creates formal business networks, and social capital becomes an integral component of their organisational competence.

Participation in networks and organisations is important, but this alone does not produce trust. For example, a high level of trust in the Scandinavian countries is associated with a pronounced ethnic homogeneity of the population, the fact that the majority of

people are Protestants, and the circumstance that these countries are characterised by extremely egalitarian distribution of wealth (Hyggen, 2006).

## Trust

Increasing complexity and uncertainty of the business environment has led, at the end of the previous millennium, to prominent interest of economists, sociologists, and psychologists in the concept of trust. The research rarely defines the content of the category of trust clearly and unambiguously.

Trust is one of the most important elements of all business transactions. In the economic literature, access to trust is mainly based on the observation and analysis of models of relations between the seller and the buyer, which exhibit the effect of several variables associated with trust, as its prerequisites, or its outcomes.

The English language uses two different terms to denote this concept: confidence and trust. The first term refers more to guarantees, insurance, and self-esteem, while the latter expresses the idea of ties and relationships. For example, at the first contact with a firm, the consumer will look for some form of guarantee, in order to establish a one-off or lasting relationship with this company. Once the relationship is established, the satisfaction regarding experienced positive experience comes into play. Thus, for example, a new product, launched under the brand with which a customer has always been satisfied, enjoys already created capital of trust.

The existence of a high level of trust is of essential importance for economic activity, and beyond, for social and political stability. Trust, in this case, goes beyond the scope of the family or wider kinship loyalty. It means readiness to cooperate with unknown individuals within the social community. Trust presupposes the existence of common views on social relationships and a sense of the common good.

Willingness to comply with the norms depends on how other people behave in a society, and what that kind of behaviour brings to individuals. In environments that are characterised by widespread disrespect of key norms (especially the norms of reciprocity), collective action, based on cooperation, is, as a rule, inefficient.

Trust reduces unnecessary costs in economic relations and promotes the effectiveness of a political system. Trust is an important requirement for the functioning of society, but it is also a very important resource for individuals. Of great importance is the question of whether mutual trust exists at the level of small social groups (family, closed organisations, etc.), or it spreads to all levels of the community as a whole. Countries that have a high radius of trust at the same time have a significant level of social capital, which is a prerequisite for economic prosperity. Economic activities that rely on future actions of individual agents are realised at lower costs, if implemented in an environment that is characterised by a high level of trust. Conversely, a low level of trust among economic agents will result in higher costs and correspondingly lower economic efficiency. Any commercial transaction implies the existence of a certain level of trust. Areas with a low overall level of trust lag behind others in terms of economic development. Simply put, lack of trust affects the growth of price of some economic transactions, whether it is about negotiating, the implementation of sales contracts, or monitoring. In contrast, in societies characterised by a high level of trust, economic

agents use less resources to protect their assets in economic transactions. In them, written contracts are less necessary and less detailed. Societies that are characterised by a low level of trust among agents, as a rule, have unfavourable innovation climate. By directing available resources to the protection of property rights, prevention of fraud by employees, business partners, and the government, entrepreneurs are left with less funds to realise activities associated with finding new products, improving existing products, and increasing productivity and economic efficiency.

The societies with a high level of trust are less dependent on formal institutions dealing with the protection of property rights and contracts. In additions, in societies where formal institutions are underdeveloped, high level of trust among transactors has a positive effect on the volume of economic transactions and is a good substitute for underdeveloped or inefficient government institutions. In a society with a high level of trust, credibility of the state administration is higher, which has a positive effect on investment and economic activities. Furthermore, a high level of trust in the society does not only have a positive effect on the accumulation of physical capital, but also has a particular influence on the maximisation of human capital. In these societies, knowledge and labour market is much more developed. In contrast, in societies with a low level of trust, employment decisions are much more based on connections and corruption, than on objective criteria of ability, as is the case in societies with a high level of trust.

The existence of a system of values and norms shared by most members of society does not imply the existence of social capital. The system of values and norms may be such that it fully or partially impedes cooperation among members of society. The most commonly used example of the society with a strong system of norms, but with no social capital that enables and encourages cooperation among members of society, is the south of Italy. Mafia organisation is characterised by pronounced internal code of conduct, omerta. The norms of conduct that apply within the organisation, do not apply beyond.

In recent times, the concept of trust has often been replaced by the category of reciprocity. Trust has a tendency to cause trust, while distrust tends to cause distrust. This reliability in a certain way “lubricates social life”, by causing the kind of interaction that supports the norms of reciprocity, as a kind of foundation stone of social capital.

## **Social capital and economic activity**

The positive influence of the state on the development of social capital is manifested through the implementation of a number of public policies. This, first of all, refers to how certain resources can lead to better results in achieving higher levels of social cohesion, trust, and commitment. Examples generally involve reforms in the education system, the promotion of social capital in the community, the affirmation of art and culture, as well as the commitment to the introduction of more flexible working hours, which would allow greater scope of common contacts of people in the family and the local community.

Social capital is not only found in the local communities that share the same values and norms, but is also very developed at the regional level, which is likely to maintain the high intensity of interaction (Agirre et al., 2009). In a globalising world with more complexity and competitive pressures, the regions endowed with this social capital lower operating costs and meet the growing need for coordination between more specialised firms (Figure 3).

Figure 3: The economic potential of social capital



Source: modified according to Agirre et al., 2009

More and more studies show that various forms of social capital are an important determinant of economic growth and development, and that distrust is an important constraint to economic growth and development. As a form of collective self-help, social capital is particularly important for the underdeveloped and poor communities.

Some features of social capital are similar to other types of capital. First, its increase implies certain investments, if not always in monetary form, then always in the form of time and labour. Second, social capital plays a role in the creation of economic value. It significantly increases the efficiency of transmission of knowledge and skills from one to the other parts of the organisation, or from one environment to another. The economic function of social capital is reflected in the reduction of transaction costs related to the mechanisms of formal harmonisation, such as: contracts, hierarchies, bureaucratic rules. No contract can foresee every detail that may arise between the parties.

The impact of social capital is manifested through dense business networks that foster economic cooperation and build trust between economic agents. Social capital created in the enterprise and between enterprises significantly reduces the risk and uncertainty of business. It enables the exchange of valuable information about products and markets, and reduces the costs of contracting, regulation, and enforced collection. When it comes to economic development, it is possible to monitor the impact of social capital on the public and private sector, trade, territorial mobility of workforce, reduction of inequality in income distribution. Stable and equitable financial system is a prerequisite for sustainable growth. Social capital has an impact on both formal and informal financial system.

The market model abstracts the honesty of agents. Trust in a person is acquired based on knowledge of their preferences, skills, possible options, and their consequences. In the long term, there is an extremely important element related to trust, reputation or business standing.

On the other hand, social capital can have significant negative economic effects. The spread of corruption channels and ties, and even politicisation of crime and criminalisation, are illustrative examples of possible negative aspects of social capital.

Finally, it should be noted that some authors challenge the use of the complex designated as social capital in the context of impact on economic growth and development.

For example, Kenneth Arrow believes that in the case of social capital, there are no material investments, which per se means that, from an economic point of view, there is no justification to treat it as a factor of economic growth. Robert Solow holds a very similar view, calling into question the use of the concept, particularly quantification of social capital.

## Conclusion

Social capital supports economic development, primarily by enabling transactions among individuals, households, and groups. Participation of individuals in social networks increases the availability of information and reduces their cost. An example of such information is information about the prices of certain products on the market, the emergence of new markets, financial resources, new jobs, the reliability of a particular dealer, etc. Participation in local networks and mutual trust allow certain social groups to make decisions and implement collective action.

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## ROLE OF BUSINESS ETHICS IN MANAGEMENT OF HUMAN RESOURCES

### Abstract

*The development of modern industry and the system of factory work, together with a large migration of people across oceans and continents, especially during the nineteenth and early twentieth century, has led to major changes in the way people work and do business. The economy shifted from agriculture and family cooperatives to the urban, the industrial organization. The impact of these changes on individuals, professionals, families, communities and the environment, as well as the rise of a new class of wealthy business leaders, but also new areas of poverty, have led to increased reporting of ethical debate. At the same time, if someone has a clear interest in a given company, then to its employees, whose lives and professional careers closely associated with it. Business ethics pays attention to employees (including employees of the management) in several ways. First, most of the ethical problems and crises that occur include operation and participation of employees. Ethical analysis of choice, communication, and behavior of employees occupying a significant part of business ethics. How can managers and owners treat the workers is another ethical issue of interest. Job security, compensation, safety, harassment, prejudice, and even the quality of work experience, are all aspects that are ethically important.*

**Key words:** *business ethics, human resources management, communications, social responsibility.*

**JEL classification:** M21, M54

## УЛОГА ПОСЛОВНЕ ЕТИКЕ У МЕНАЏМЕНТУ ЉУДСКИХ РЕСУРСА<sup>4</sup>

### Апстракт

*Развој савремене индустрије и система фабричког рада, заједно са великим миграцијама људи преко океана и континента, посебно током деветнаестог и почетком двадесетог века, довео је до великих промена*

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*у начину на који су људи радили и пословали. Привреда се пребацивала са пољопривреде и породичних задруга на градске, индустријске организације. Утицај ових промена на појединце, раднике, породице, заједницу и на животну средину, као и успон нове класе богатих пословних лидера, али и нових области сиромаштва, довели су до јављања појачане етичке дебате. Истовремено, ако неко има јасан интерес за дату компанију, онда су то њени запослени, чији су животи и професионалне каријере блиско повезани са њом. Пословна етика обраћа пажњу на запослене (укључујући и раднике из менаџмента) на неколико начина. Прво, већина етичких проблема и криза које се јављају укључују деловање и учеиће запослених. Етичка анализа избора, комуникација и понашања запослених заузима значајни део пословне етике. Како се менаџери и власници понашају према радницима друго је етичко питање од интереса. Сигурност на послу, компензације, безбедност, узнемиравање, предрасуде, па чак и квалитет радног искуства, све су то аспекти који су етички битни.*

**Кључне речи:** *пословна етика, кадровски менаџмент, комуникација, друштвена одговорност.*

## Introduction

The creation and transfer of knowledge is a very important aspect of modern society, because new knowledge is helping to rebuild the forms of production and management. This trend is reflected in an increased focus on the economy, expertise and management education. Many companies, especially in sectors with highly educated staff, have introduced or are introducing new management models that support perfection, quality management, creativity in terms of knowledge, organizational and education (Mihailovic, 2011).

The driving force of development and business success resulting from continuous learning and improving managerial skills and abilities. However, changes in the business world, as well as changes of mentality in relation to the way in which jobs are carried out, led to the occurrence of the necessity of analyzing the fairness of the process, not only in terms of the law, but also in terms of morality. As a consequence, conceptualized the new disciplines - business ethics.

## Defining Business Ethics

The emergence of formal study of ethics is coordinated between several authors (e.g., Bauman (Bauman, 1993), Parker (Parker, 1998) et al.). With the modernist Enlightenment project and the idea that moral uncertainty can be resolved by resorting to human rationality and abstract reasoning. The main issue in business ethics is to do the right thing. Different philosophies, religions and individuals gave the answer to “what is right and how do we know?” In different ways, but can be distinguished one general agreement, if not universally, that it is wrong to everything that harms or presents a risk to humans. Old Hippocratic Oath says that the first duty of medical ethics to “do no harm”.

So it should be, and in business ethics: ethical business is the one that seeks to avoid damage. What is ethically right and good is what can help people to lead a free, healthy

and fulfilling life. It is obvious, however, that the damage is an elastic and a relative term but thinking about ethical “good and evil” in this simple, historic, classic terms helps us to focus on a general language and the problems that occur here. (Mihailović, & Cvijanović, 2013, p.106-116).

For business ethics, it was claimed that the so called. Oxymoron. (Collins, 1994, p. 1-8). The term is an oxymoron involves two seemingly contradictory terms, such as “cheerful pessimist” or “deafening silence”. To say that business ethics is an oxymoron therefore says that does not exist or cannot be ethics in business activities, that job is somehow immoral (i.e. That the work is inherently bad) or that, at best, amoral (i.e. outside our usual moral principles). For example, in the latter case, Albert Carr (Albert Carr) is notoriously argued in his article “Does the business playing the moral” to “game” the business was not subject to the same moral standards as the rest of society, but that it should be regarded as analogous to the game poker, in which deception and lies perfectly permissible. (Carr, 1968, p.143-53).

To some extent, it should not surprise us that some people think this way. Various scandals undesirable business activities, such as pollution of rivers by industrial waste, exploitation of workers, giving bribes to government officials and fraud against consumers needlessly stressed the outrageous way that some companies use in their operations. At the same time, the publication of corporate abuse cannot be interpreted in terms of thinking about ethics in business situations is something completely superfluous.

After all, many of the everyday business activities require the maintenance of basic ethical standards, such as honesty, reliability and cooperation. The activity will not be able to survive if corporate directors never tell the truth, if buyers and sellers never trust each other or if the employee refuses, ever, to provide support to each other. Likewise, it would be wrong to conclude that the scandal involving the misuse of corporate indicate the subject of business ethics, in some way, as naive or idealist. Indeed, on the contrary, it can be said that business ethics primarily there to give us some answers related to questions about why certain decisions should be evaluated as ethical or unethical, or correct and incorrect. Accordingly, one of the most important principles of business ethics is reflected in the practical analysis of the ways in which create value in organizations and communities. (Batstone, 2003). In such circumstances, there are certain ethical dilemmas. The ethical dilemma is an example in which there is a difficult question about what is the right thing to do. It often occurs due to a conflict of moral values or principles, either within a single entity or between two or more factors. Focus on the method of examples is called. “Casuistry” which analyzes the ethical dilemmas and problems in order to serve as an aid in making decisions and doing the “right things”. (Brown, 2003).

No systematic research, we would not be able to offer anything more than vague opinions or hunches about whether certain business activities are acceptable. Whichever way you look at it, it seems, there is good reason to point out that business ethics as a phenomenon and as an entity that is not an oxymoron. Although it will inevitably be disagreement about what exactly is an “ethical” business activities, the bar is quite possible to offer indisputable definition of the object. So, in short, what is considered to be the topic of business ethics would be:

*Business ethics is the study of business situations, activities and decisions referred questions and wrongs.* It is worth mentioning that the “correct” and “incorrect” represent what it means morally right and wrong, as opposed to, for example, commercial, strategic or financial “correct” and “incorrect”. In addition, the concept of business ethics involves not just commercial jobs, but also government organizations, non-profits, charities and other organizations. At the same time, the study of business ethics has developed more

institutional character and more attention is devoted to the organization of moral behavior. In the beginning, the attention is focused on determining the factors that stimulate or block the moral behavior. (Bartels, 1967, p. 22-26). In the literature, there is no generally accepted definition of an ethical program. It is often argued that the effective ethical program of continuous process activities that are designed implemented and enforced to prevent and detect failures. (Ferrell, Thorne LeClaire, & Ferrell, 2000, p. 353-360). Other authors emphasize the common elements of formal ethics programs such as formal codes of ethics, ethics committees, ethical communication systems, ethical supervisors, ethics training programs, disciplinary processes. (Cochran, Trevino, & Weaver, 1999, p. 41-57).

## **The Ethical Nature of Human Resource Management**

Personnel management is a business function that deals with the management of relationships between groups of people in their capacity as employees, employers and managers. Inevitably, this process can raise questions about what are the responsibilities and rights of each party in this regard, as well as what constitutes a correct attitude. Personnel management has an ethical basis and deals with the practical consequences of human behavior. However, despite a number of ethical guidelines for human resources management, there is a strong business tradition that insists that business does not need to deal with ethics. As pointed out by Milton Friedman (Milton Friedman), one of the more vocal proponents of this view: “The social responsibility of business is reflected primarily to its shareholders.” (Friedman, 1970).

Proponents argue that the market economy is the main purpose of business is reflected in an attempt to ensure the best possible return on total investment. Each “dilution” of this focus will lead to an imbalance precisely balanced market system. Companies, who pretend to be ethical, as well as profitable, probably will not succeed economically, which may adversely affect the entire community. Instead, we should let the invisible hand of the market and manages all will prosper. Like some rules of evolution, the best will always survive, when we will be transferred from the wealth of successful enterprises, which will benefit the entire society.

Regardless of the complaint, according to this way of thinking, a critique of business practice has continued to accumulate and confirming themselves the challenge of challenging the idea that business and morality have no points in common. The interest is coming from different sources: consumer associations, political groups, religious and humanitarian organizations. Entrepreneurs, academics, researchers and managers, all expressed the view that standards of behavior in the business should be evaluated and improved.

On the other hand, the increase in the volume of global business and the elimination of trade barriers worldwide amplifier further interest in the topic of ethical behavior and social responsibility. (Jones, 1991, p. 366-395). How do multinational companies spread globally and entering international markets, the ethical behavior of employees received higher importance because the vast cultural diversity associated with such expansion may threaten the common cultural and ethical values that are observed in homogeneous organizations. (Mahdavi, 2001).

Much of the current focus of business ethics was directed against financial corruption, with particular concern regarding compliance of accounting standards. At the same time, concern has risen to a very broad range of issues, such as:

- Misuse of the world’s natural resources and global ecological balance;
- The abuse of human rights;

- Animal Rights;
- Aggressive treatment of competitors;
- Exploitative and unscrupulous marketing.

Indecent human resource management practices are also erupted in the focus of public attention:

- The use of prisoners as cheap labor;
- The use of child labor;
- Avoidance of assets in pension funds;
- Extended working hours;
- Increased stress at work;
- Murky practices in hiring and firing staff.

It is shown that consumer perception of ethics of the company may affect the sale, such as the attitudes of its investors affect the stock price. Also, set standards of behavior by top management influence on employee motivation and commitment to organizational goals. (Cvijanović, Mihailović, & Pejanović, 2012).

Personnel on the organizational system, which includes businesses, people make with their professional qualifications and role in the process of doing business, so in theory and practice of human resource management and human resource management called. This term means the activities of human resource management and managers who carry out these activities. (Stavrić, & Kokeza, 2002, p.365). After a certain time, experience in joint problem solving results in raising the skills and creativity of management at a senior level. This effectively improve management has its theoretical footing. In fact, it extends the basis of strategic management and formed a new approach called - creative management. (Hurst, Rush, & White, 1996 p.384). Creative management, in line with current trends in the organizational environment, defines the management process, the functions of individual managers in this process and the attributes of those managers who are part of the top management team.

Model creative management is based on the philosophical assumption that the real world, which surrounds the modern organization, dynamic, turbulent and changeable, and that, as such, of the organizations and their management requires performing complex activities. These activities do not require the Serbian managers merely solving the problems caused by uncertainty, but also the identification and exploitation of new business opportunities. Specifically, changes in demand and competition require adjustment of the company's management mindset and marketing strategies alignment with the challenges of the environment. (Cvijanović, Mihailović, Čavlin M., & Čavlin, G. 2015 p. 1100).

It is evident that the necessary qualitatively new manager features that are geared towards innovation, creativity and change. The implementation of such a complex set of functions includes such membership structure top management team suggests that the differences in terms of cognitive preferences and forms of behavior of team members and their heterogeneous abilities required to perform various activities of the creative process management (as shown in Table 1).

Structuring the creative process level management is performed on the basis of the need for different types of managers. Teamwork manager contributes to the constitution of creative management, ready for the challenges of modern business. Experience in team work is important for holders of creative management, since it is based on the formation of top management teams. For assistance in human resource managers, relying on the science of behavior, they can use a number of methods that facilitate the development and change in individuals, groups or companies to manage the target. These methods include

professional training groups, transactional analysis, operational analysis, group therapy for certain work, non-verbal communication techniques, organizational development, the motivation for achievement, use of managerial networks and others. (Živanović, 1994, p. 37).

Table 1. Relationships between cognitive preferences and behavior

Process Level KM	Functions KM process	Cognitive preference	It deals with:	Served:	Examples of conduct
I	imagination realization	intuition	opportunities and ideas	metaphors and symbols	Observe what others do and advocates for new ways of handling things. He proposes new ideas, ignores the practical details. For a description uses metaphors and symbols. Uses organizational history and myths about the organization.
II	motivation, satisfaction	sense	people and values	strength of personality	Inspire your colleagues and associates. Responds to requests. Supports new ideas. Transfers of information, power, resources. Keep your people together. Rewards awards and commendations. Downloads organizational history and myths about the organization.
III	planning, evaluation	reasoning	causes and consequences	regulations and speech	Aligns the objectives and resources on the results (i.e., plans). People organize, coordinate. Balancing new and routine. Rewards when the results outperform the plan.
IV	action	observation	activities and events	spontaneity and action	Aligns skills with tasks. Attention is paid to practical details. It advocates that things work. The results of his personal satisfaction.

Source: Adapted from: Hurst, D.K., Rush, J.C., White, R.E. (1996): “Top management teams and organizational renewal”, in *How Organizations Learn*, (ed) Ken Starkey, International Thomson Business Press, p. 389.

When analyzing these areas is necessary to focus attention on motivating employees to generate their knowledge. The employee must meet certain standards, technical requirements and standards of production and so on. It is necessary to realize the atmosphere of the company that teaches i.e. of workers to form a skilled and creative personality. It is wrong to workers regarded as mere executors of work orders. An instructive example of Japanese companies, which are characterized by extraordinary productivity, which applies the so-called. Initiative “bottom-up” in the collection of ideas and the decision making, which in future work leads to high motivation of workers.

One of the main roles of human resource management is the harmonization of the number and structure of human resources with the planned scope and structure of business. The management of human resources is expected to address the employment policy of workers and the main elements of jobs in the organization, i.e. recruitment, training, promotion and relocating workers, wage increases, labor management, etc. First you must perform audits of existing policies and procedures of the workforce, exploring, analyzing and comparing policies with the actual results achieved in a given period, through a systematic audit. To labor policy to be effective, it must meet several criteria: (Kubr, 1976, p. 218).

- policy must be in writing, understandable and presented in its entirety, covering all jobs in the company;
- labor policies must all know and it must be applied throughout the organization;
- policy must be based on logic and arguments, in accordance with public policy and the policies of other companies and organizations;
- policy must be internally consistent with the stated objectives and the general policy of the company;
- specific labor policies (e.g. development and transfer) must be aligned with each other;
- labor policy is the result of discussions at several levels, and a number of consultations across the organization, including consultations with workers' representatives.

Audit staffs provide information on their practices. To achieve this, the information must look vertically through the Department for Employment and horizontally across other departments, which means that an audit conducted throughout the organization. The procedure for conducting audits can be very complex. Basically, it consists of obtaining information on the quantitative and qualitative nature of a number of data and reports supplemented by interviews, questionnaires, surveys, discussions, etc. Information can be obtained through *longitudinal research*, i.e. research sector by sector, which would be calculated percentages of lost time and the second relates to the comparative basis or can be used *transversely research*, which thoroughly investigate the effects of these policies on the work of employees. The recommended method for carrying out the audit of the workforce is creating a list of elements of the policy of the organization, to set aside a practice that has been used in the organization. An example is given in *Table 2*. A complete list of the elements of the policy manpower for the purposes of the audit would include: workforce planning; selection of employees; reassignments and promotions; assessment; training and development; communication; permits, breaks and vacations; assessment of the workplace; benefits; pension and social security; safety and health policy, business relationships, work discipline; motivation and administration. The results of the audit of the labor force, if it is necessary, may indicate the need for defining a change or re-create organizational policies. If the data are inadequate or non-existent, it is necessary to change something in the field of labor. Effective workforce management is only possible when management can use the audit staff as a mechanism for achieving their goals.



Table 2. The audit staff (the data for the last 12 months)

These policies	Regular practice	Audit results
1. Recruitment (Promoting, when possible, an employee of the organization itself)	Recruitment to the side is a constant and continuous procedure	95% of workers came from the side. High dropout rate for workers over 65% per year
2. Training (No specific policy)	The organization sends two higher skilled managers in courses organized by professional associations at the request of interested individuals	Staff stated only limited opportunities for promotion and training, feels that workers have to commute to another company if they want to progress
3....etc	.....	.....

Source: Kubr, M. (1976): Management consulting – A guide to the profession, International Labour Office, Geneva, p. 219.

With this method it is possible to check and assess the performance of managers in the field of labor. This provides us with a comprehensive and high-quality data and reports describing the results obtained a policy of labor. It is recommended to prepare the report forms for individuals with issues relating to their work and that will allow easy evaluation of group information (accidents, overtime, etc.) That is necessary for the revision of the labor force in the future.

## **Models of Development of Human Resources Management**

Today the concept of social marketing define the needs of the target market and meet them more efficiently and effectively than the competition, so that it maintains or improves the welfare of consumers and society as a whole. In the opinion of one expert in marketing this concept is just “human marketing”, on which to base organizations must take a greater social and human responsibility, so as to avoid conflicts with the wishes of users in the short term, as well as giving up their products company in the long run. (Balaure, 2000). Accordingly, it must first be clearly definite quality and quantity of human resources of the company. Determining the need for personnel is part of the planned activities of managers. This is the first task of the human resources function that managers need to perform on the basis of provided answers to the following questions: (Stavrić, & Kokeza, 2002, p. 367).

1. Who are the jobs necessary to achieve the objectives of the company?
2. What kind of knowledge and skills that should have employee to successfully perform these necessary tasks?
3. How many workers are required to perform certain tasks in the enterprise?

The choice of one person over the other at a certain position is usually based on individual abilities and characteristics. In most examples, there are procedures and techniques for identifying and measuring abilities and skills that are needed for a particular job. The main techniques for selecting workers are testing and interviewing.

*Testing* refers to the exploration of knowledge, abilities and skills of the candidates and their behavior on the basis of which predicts future performance. The trend is that more applicable performance tests (measurement of existing skills and knowledge), not aptitude tests (measuring potential). Managers have realized that it is not easy to get a “real” person whose profile fits the job description and that it is therefore necessary to test the relationship with the real needs of workforce planning and employee training programs.

*Interviewing* is a useful diagnostic tool, but there are a large number of flaws as a predictor of future performance. Managers must be aware of the need for thorough planning and training in this technique, and it is therefore necessary to become familiar with the limitations that apply to this method.

*Professional planning and training.* For professional planning and training, attention is paid to the growing number of organizations, so managers must be prepared to deal with problems such as:

- Determining the main directions of professional planning and training, which are divided into different categories of employees;
- Analysis of organizational, educational, cultural, social and other obstacles that people face and that sometimes cannot be overcome in their careers;
- Setting up a system in which employees will be encouraged to plan professional development;
- Defining policy of professional development for the organization as well as the criteria (information, training, reassignments, etc.) In order to support and facilitate professional development;
- Designing professional development courses for those who are unlikely to reach the managerial and other senior positions.

*Staff development and organization.* It is increasingly understood that there are great benefits from development planning workers and managers. There is a growing interest in professional planning and staff training, organizational development and other programs with which to help people to improve their business life and achieve greater fulfillment business.

*Assessment of the workplace.* During the evaluation of jobs, management must consult with the trade union as well as individual workers. Employee representatives from trade unions are an important factor in decision-making, such as benefits or redundancies. There are a number of techniques for the assessment of the workplace, depending on the job under consideration. Some of their elements are schemes for ranking business, job classification, scoring systems, comparison of factors, and a final assessment.

*Motivation.* Any organization whose purpose is to achieve certain economic and social goals, trying to motivate their employees toward the goals, which can include social, organizational, group and individual. From management may be required to assist in determining the techniques and strategies to motivate employees. One may refer to:

- *improve the overall working environment in the organization*, assuming that it greatly affects the motivation of people at all levels in the organization;
- *enrichment of the job where the rewards certain behavior*, especially financially; because of this there must be a system for feedback, so that the stimulus that is used to connect directly with actual performance.

The methods are explained not apply independently. They affect different components of the process of motivation and refer to the different degrees of intervention by the management. When assessing the jobs necessary to become familiar with the practice in other industries to constructively solve problems in determining wages.

*Evaluation of performance.* Experience has shown that the evaluation of performance precisely how levels of performance increase. However, experience shows that the assessment of performance that are used in a large number of organizations, usually not objective criteria but subjective estimations made by supervisors. Assessments must be linked to the actual work performance, whereby supervisors (or other person exercising assessment) must be trained to use techniques of evaluating work performance. Quality assessment depends on the set: organizational, group and individual goals.

## Conclusion

The impetus for the development of business ethics as a field of research and professional practice, especially in the area of human resource management, in recent decades, comes from several sources.

First, the rapid development of technology and its application in the economy have led to changes and increase the traditional list of problems of business ethics. The technology has intensified the old problems, creating new and complicated at the same time and speed up the existing ones.

Secondly, social and cultural events during the sixties of the 20th century led to a more frequent review of traditional ethical rules. The requirements for the recognition and acceptance of the same rights of students, women and ethnic minorities, a new need for taking care of the environment and the increasing ethnic, religious and cultural diversity in the workplace: all these forces and interests helped to re-examine the old ways of doing business and that rethink about what is right and what is wrong. Therefore, just as the ethical problems in the economy increased it was difficult to adopt a common and shared set of ethical values and rules.

Third, the academic and intellectual horizon, there was a growing specialization, that is, on the one hand, fueled range and complexity of various old and new disciplines and research areas, and on the other “explosion” that emerged in the quantity of available data that must be review. The development of specific areas of business ethics (such as medical or bio ethics) became a logical solution, it is possible and necessary. An increasing number of ethical problems, together with the weakening of the general set of values and morals, have created fertile ground for new research and academic specialization.

Fourth, an increasing number of crises and scandals in managerial positions in the economy have led to demands for better government regulation and better supervision of operations, on the one hand, and better education and practices in business ethics on the other side. Scandals in trade, accounting and financial sector, the manipulation of science, dangerous products (cars, tires, drugs), exploitation of children at work, environmental disasters, industrial pollution and depletion of natural resources, but also of growing inequality in wages and bonuses for managers and workers are some of the

major ethical issues. This litany of ethical scandals and theft among business leaders serving as a strong call for better accession to the idea of business ethics.

Business ethics is essential for long-term success of the business activity, and this is true both on the macro-economic level (immoral behavior can lead to market distortions and to inadequate allocation of resources), and at the microeconomic level (this level is often associated with trust in suppliers, customers, employees and the community), where each organization has certain responsibilities, both socially as well as in the economic sphere.

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## SUSTAINABILITY OF THE FOREIGN ASSISTANCE IN AGRICULTURE – MACEDONIAN EXPERIENCE

### Abstract

*Macedonian agriculture has received substantial donor support in the past two decades. Now, when most of those donor projects are completed, this paper looks at what have been the most important factors for achieving sustainability, and how the level of sustainability of the foreign assistance in the agriculture can be improved. The analysis is based on 8 different foreign donor projects in Macedonia. The data collection is done through a primary research – interviews with stakeholders of those projects, and secondary research – already existing publications on the topic. In the analyzed cases the achieved sustainability of the results is not on a required level. The factors that contributed to this can be seen in the lack of political support, socio-cultural aspects, institutional aspects, economic and financial aspects as well as the external factors. This gives basis for recommendations for the main stakeholders and potential users of this paper: the national government to ensure that the donors' country strategies are in line with the national strategies; to the donors to use the participatory approach in the project design; and to the beneficiaries (farmers) to take greater responsibility and commitment for ownership of the achieved project results.*

**Key words:** Sustainability, agriculture, donor projects, foreign assistance, development.

**JEL classification:** F35, O13, O19

## ОДРЖИВОСТ СТРАНЕ ПОМОЋИ У ПОЉОПРИВРЕДИ – ИСКУСТВО МАКЕДОНИЈЕ

### Апстракт

*Македонска пољопривреда је примила значајну помоћ страних донатора у протекле две деценије. Сада, када је већина тих донаторских пројеката завршена, овај рад даје преглед најважнијих фактора за постизање одрживости стране помоћи пољопривреди, али и како степен те помоћи може бити одржан и унапређен. Анализа се базира на осам различитих страних донаторских пројеката у Македонији. Подаци су прикупљени путем примарног истраживања – интервјуа са стејхолдерима тих пројеката, и*

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*секундарног истраживања – путем већ постојеће литературе из конкретне области. У анализираним случајевима, постигнута одрживост није на жељеном нивоу. Фактори који су допринели таквом стању су: недовољна политичка подршка, друштвено-културни аспекти, институционални, економски и финансијски аспекти, као и други екстерни фактори. Ово даје основу за препоруке које могу бити од изузетног значаја стејкхолдерима и потенцијалним корисницима овог рада: националној влади која треба осигурати да стратегије донаторских земаља буду у складу са националним стратегијама; донаторима који би требало да имају партиципативни приступ приликом дизајнирања пројеката; као и крајњим корисницима пројеката (пољопривредницима) који би требало да преузму већу одговорност и покажу већу посвећеност оствареним резултатима тих пројеката.*

**Кључне речи:** *одрживост, донаторски пројекти, страна помоћ, развој.*

## Introduction

After the independence of Macedonia in 1991 the slow and difficult transition process started. It was accompanied by decreased economic activity, increased unemployment, fall in the GDP and poverty expansion (SSO, 2011, p. 317) – all in the context of privatization of the state-owned companies, which was a long and non-transparent process.

Under these circumstances many foreign missions started activities for support of the country’s development in different areas (SEI, 2005, p. 6). Big part of the support was directed in the agricultural sector, as one of the most important economic activities in Macedonia (SEI CDAD, 2011). Having in mind that agriculture contributes with 10% in the GDP (SSO, 2013, p. 333), its development is of essential importance for the general economic development.

From the perspective when most of the foreign donor projects in the agricultural sector in Macedonia are already finished, it is interesting to see:

- What are the results of the donor interventions in the agricultural sector in Macedonia?
- Have those results been locally integrated, further developed and sustained?
- What have been the factors influencing sustainability?
- How can sustainability of the donor projects in the agricultural sector be achieved?

## Theoretical review

According to Danida (2006, p.47) “sustainability is a measurement showing if the benefit of the development intervention is likely to continue after the external assistance will be terminated”. The evaluation of the sustainability refers to the effects of the development process on a long term. Sustainable development requires that in a long run social and ecological factors have to be taken into account in addition to economic

factors in order to meet the present needs without compromising future generations (Merino, Vargas, Pastorino, & Mazzon, 2014, p. 150).

In many ways the sustainability is a higher level of test checking if the development intervention has been successful or not. Too many development interventions tend to fail after the implementation phase is finished because either the target group or the responsible parties don't have the means or sufficient motivation to ensure the necessary resources for continuation of the activities. Sustainability becomes central topic in the evaluations because many development agencies are getting more focused on the long-term perspectives and the permanent improvements. As a result, capacity building of the communities and organizations is a common goal of the development interventions, consistent with the overall goal for promoting increased autonomy and independence of the partner countries in public service provision (Action Aid, 2005, p. 53).

Useful question for evaluation of the sustainability is the degree to which capacities have successfully developed, for example through participation, strengthening, ownership, availability of local resources, and political support. In addition, the sustainability of the development interventions depends heavily on checking if the positive impact justifies the necessary investments and if the community sufficiently appreciates the benefits so that it is ready to dedicate part of its limited resources in order to achieve it (Banerjee, 2007, p. 8).

Since the sustainability is connected to what happens after the development interventions are finished ideally it should be measured several years later. It is difficult to make a good evaluation of the sustainability while the activities are still ongoing or right after their ending. In that case the evaluation is based on projections for the future development based on the available knowledge for the intervention and the capacity of the involved parties to cope with the changeable conditions. That requires analysis of the context, its advantages and limitations as well as future scenarios.

The experience of the donor agencies shows that the sustainability of a development intervention depends on seven factors (Danida, 2006, p. 56):

- Measures of political support
- Technological choice
- Environment
- Socio-cultural aspects
- Institutional aspects
- Economic and financial aspects
- External factors.

Therefore, the interview questionnaire (Annex 2) that has been used contains questions that try to discover the relevant factors of the sustainability of the foreign assistance in the agricultural sector in Macedonia. Below the different factors are explained.

*Measures of political support* - Beneficiary's commitment is one of the most frequently identified factors, which influences the success of the development interventions. The commitment is expressed through agreeing on the objectives, and readiness to invest financial and human resources. The commitment of the beneficiary depends on the perception of the common interest, as opposed to the one in which the donor interest dominates (ActionAid, 2005, p. 38).

*Choice of technology* - The financial and institutional capacities of the partner country are the main determinants of the choice of technology. Thereby, one should take in consideration the effects of the technology in the society and the costs for acquiring and maintaining the technology versus its benefit (Danida 2007, p. 56).



*Environment* - The importance of the environment is nowadays widely recognized. Even though the effects of the environment may seem non-significant on a short term, the wider effects may be significant on a long term. Therefore, one should always take in consideration the environmental policy, stimulations and regulatory measures, interests of the different stakeholders and effects of the development interventions (World Bank, 2007b, p. 41).

*Socio-cultural aspects* - The social and cultural factors influence the adaptability and relevance of the different development activities. They also influence the motivation of the members of the target group and whether they will participate and accept responsibilities in the development process (Lancaster, C., 2007, p. 15).

Development interventions that are consistent with the local traditions or do not require substantial changes in the way of behaving have greater chances for success.

*Institutional aspects* - The strength of the institutions and the capacity of the organizations are the most important success factors of the development interventions. For more details, one could analyze the management, administration system and beneficiaries' participation (Lancaster, C., Van Dusen, A., 2005, p. 18).

*Economic and financial aspects* - The evaluations should focus on three economic and financial aspects. First, the economic justification of the intervention. Second, the economic and financial benefit of the investment compared with the resources spent. Finally, financial sustainability of the operations in the future, researching if the assets are and will be sufficient to cover the future operations, maintenance and depreciation (Thiele R. et al, 2006, p. 2).

*External factors* - The development support takes place in a context of political, economic and cultural environment, which is outside of its control, but which can have critical influence on it. The factors such as: political stability, economic crisis, overall development level, the condition of the balance of payment, as well as natural disasters can have a key role for the sustainability of the development intervention (Riddell, R. S., 2014, p. 31).

## Hypotheses and research methods

The purpose of this research is to analyze and determine the level of sustainability of the results of the foreign assistance in the agricultural sector in Macedonia. Based on those findings conclusions are drawn and recommendations made with the aim to define ways for increased level of sustainability of the foreign assistance in the agriculture. The recommendations refer to the main groups of stakeholders: donors, national authorities and farmers.

The paper starts from the following assumptions:

*Ha. The donor interventions in the agricultural sector in Macedonia are relevant.*

*Hb. The results of the donor interventions in the agricultural sector in Macedonia have been locally integrated, further developed and sustained.*

*Hc. Political support, institutional and economic aspects are factors influencing sustainability of the donor support in the agricultural sector in Macedonia.*

*Hd. Donors, national authorities and farmers can improve the level of sustainability by working together.*

This paper is drawing conclusions based on the analysis of 8 different foreign donor projects in the agricultural sector in Macedonia, and the sustainability of their results.

The data collection is done through a primary research – interviews with stakeholders of those projects, and secondary research – already existing publications on the topic. The interviews were conducted with 17 stakeholders (former employees, beneficiaries of the foreign assistance in the agricultural sector, as well as experts in the area – in Annex 1) in the period September – October 2010 and October – November 2011.

## Research results

The importance of agriculture in Macedonia can be seen from its substantial contribution in the Gross Domestic Product (2013: 9.6%), (State Statistical Office, 2013, p. 333). In addition it is important because around 43% of the population lives in the rural areas spread over 87% of the total surface of the country (National Strategy for Agriculture and Rural Development 2007 – 2013, p. 13). Agricultural employment serves as a social buffer, helping alleviate poverty and unemployment, particularly in times of high off-farm unemployment, which is particularly becoming severe in the time of the world economic crisis.

Macedonia has done very well in trade liberalization and important progress has been made in removing barriers for entry and exit trade. Macedonia is a signatory of the Central European Free Trade Agreement (CEFTA), and it is also a member of the World Trade Organization (WTO) (Vukotic and Spahn, 2013, p. 21). But market liberalization is one thing and to be able to successfully compete in it is another thing. Competitiveness is one of the major challenges with which the Macedonian agriculture is facing. If the producers fulfill the strict requirements on price and quality to compete in the EU markets their products will have access to the entire common market. But if they fail to meet these requirements they will quickly lose their market share in the domestic and regional markets and the sector production will decline.

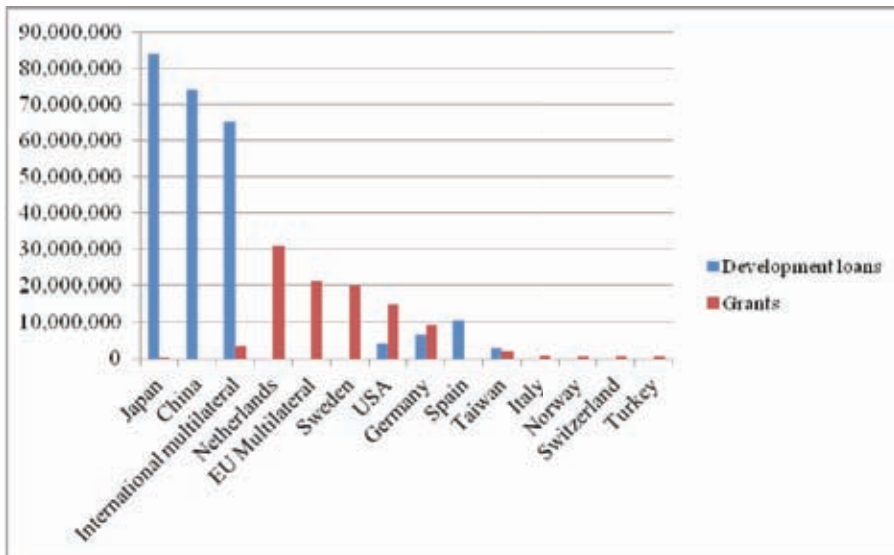
According to the Central Donor Assistance Database (CDAD) of the Secretariat for European Issues of the Republic of Macedonia the foreign donors have invested around 360 million Euros from 1992 until 2011. It includes the Official Development Assistance (ODA) from the donor countries, as well as Other Official Flows (OOF). OOF are transactions that come from the official sector, but do not fulfill the criteria to be considered ODA since they are either not dedicated to development or they do not contain a grant element of at least 25% (OECD, 2009, p. 180). Out of the total amount around 70% are development loans, and 30% are grants. On 13 August 2011 there were total of 138 projects from the area of agriculture registered in CDAD, most of which EU funded projects (total of 63, from the programs CARDS, FARE, ECHO, Tempus, IPA), followed by Netherlands with 16 projects, Sweden with 13 projects, Germany with 7 projects, 5 projects each from World Bank, USA and Norway, 4 Japan and Taiwan, and the same number from the international multilateral donors Food and Agriculture Organization (FAO) and International Fund for Agricultural Development (IFAD).

The two biggest projects in this group cover 42% of the total investments. That is the building of the hydro-electric central Kozjak with Chinese funds and the Japanese assistance for building the hydro system Zletovica. It is clear that these projects have multipurpose, which is not only limited to the agricultural sector. Still they are part of this group and impact the total amount of the foreign donor investments to a great extent.

If the value of two more projects is added here (Rehabilitation and restructuring of the irrigation by the World Bank and the Dutch investment in the hydro system Lisice) then we come to the level of 54% of the total investment of these foreign donors in the agricultural sector in Macedonia.

The investments of the foreign donors in the agricultural sector in Macedonia have been coming as multilateral and bilateral assistance. Multilateral projects are from the programs CARDS, FARE, ECHO, TEMPUS of the European Union as well as projects of the international organizations: World Bank, IFAD, FAO, United Nations Development Program (UNDP) and United Nations Industrial Development Organization (UNIDO). The bilateral assistance has been coming from: Japan, China, Netherlands, Sweden, USA, Germany, Taiwan, Italy, Switzerland, Norway and Turkey (SEI, CDAD 2011).

Japan, the international multilateral donors (primarily the World Bank) and China have assisted with significantly higher amounts compared to the other donors. But if we look at the structure of the assistance which has been provided by them it can be concluded that they are actually creditors, which have supported Macedonia with favorable development loans.



*The structure of the foreign donor investments in the agricultural sector in Macedonia (in Euro), source: CDAD (www.sep.gov.mk), 13 August 2011*

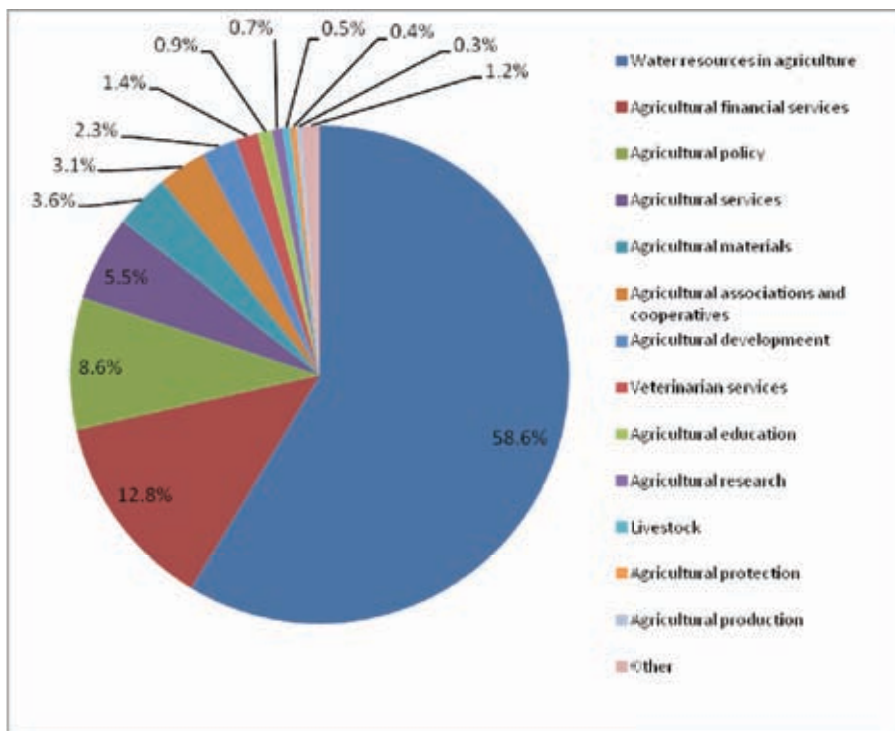
On average the projects in the agricultural sector in Macedonia have lasted for 27 months. 49% of the total value of the donor investments belong to project which started before 2000, 47% to projects which started between 2000 and 2005, and only 4% of the total value belongs to projects that have started after 2005. This confirms the fact of withdrawing of especially the bilateral donors from Macedonia with its progress in the EU accession.

CDAD (SEI, 13 August 2011) divides the agricultural projects in several categories:

- Water resources in agriculture
- Agricultural financial services

- Agricultural policy and administrative management
- Agricultural services
- Agricultural materials
- Agricultural associations and cooperatives
- Agricultural development
- Veterinarian services
- Agricultural education
- Agricultural research
- Livestock
- Agricultural protection
- Agricultural production
- Other

Thus categorized the biggest contribution (58.6%) is from the projects from the category Water resources in agriculture. This is understandable as we take in consideration the infrastructural importance of these projects and the capital investments associated with them. They are followed by the Agricultural financial services (12.8%), Agricultural policy and administrative management (8.6%) and Agricultural services (5.5%).



*Participation of the different categories agricultural projects in the total amount of foreign donor investments in agriculture, source: CDAD ([www.sep.gov.mk](http://www.sep.gov.mk)), 13 August 2011*

Below is a presentation of the results achieved by 8 different foreign donor projects in the agricultural sector in Macedonia and their status after the end of those projects.

### ***Result – Improved efficiency of the irrigation system***

According to Dr. Ordan Cukaliev, professor in irrigation at the Faculty for agricultural sciences and food at the University Cyril and Methodius from Skopje (who has also been an active participant in many of the foreign donor projects in the area of irrigation), the capital investments are already made, but still very few of them have given a real effect in the agriculture. The project for building the hydro electric central Kozjak should be accompanied by an additional project for building a network for irrigation so that it will be made possible for the accumulated water to be used in the agriculture. The main purpose of the hydro system Zletovica is potable water supply, and the irrigation should be an additional benefit. That has still not been done. Irrigation Rehabilitation and Restructuring Project contributed towards improvement of the efficiency of the irrigation system in Macedonia, and it established and promoted the water communities as the management structures in the irrigation (World Bank, 2007a, p. 4). Previously, the managing responsibility was with the Public Enterprise for Water Economy. Based on the results from the primary research, the transfer of the management responsibility did not result in success due to the lack of expertise, equipment and finance of the water communities.

### ***Result - Institutional strengthening and adopting safe banking practices (with focus on agricultural support)***

Few years after the end of the Private Sector Development Project whose one of the aims was institutional strengthening and adopting safe banking practices (World Bank, 2003, p. 2) in six selected banks, the situation was such that most of the banks in the target group adopted improved policies and procedures for credit risk management, improved the information technology and the management information systems. Still, only two of the banks noted positive trends in their net profit, while one of the banks went bankrupt [<http://www.kb.com.mk/>, <http://www.nlbtb.com.mk/>, <http://www.ob.com.mk/>, <http://www.stb.com.mk/>, <http://www.sparkasse.mk/>].

### ***Result - Agricultural Credit Discount Fund***

The Agricultural Credit Discount Fund (ACDF) is a result of the IFAD program in Macedonia and now serves as a state-owned credit fund which provides favorable loans dedicated to individual agricultural producers and agribusiness (IFAD, 2010, p. 2). ACDF is administered and managed by an independent unit within the Ministry of Finance [<http://www.finance.gov.mk/node/312>].

The Agricultural credit discount fund (ACDF) is a responsible institution for administering of the revolving credit fund (Jovanovski and Nenovski 2006) formed by the credit lines IFAD1, IFAD2 and for support of the private sector from the World Bank PSDL1, PSDL2 and the credit line from the European Investment Bank in total amount of around 42 million Euro.

The main objective of the Agricultural credit discount fund is ensuring sustainable financial services in the agriculture, which are justified for the financial institutions, and

at the same time acceptable for the farmers, as well as the small and medium enterprises, which are working on primary agricultural production, processing of agricultural products and export of primary agricultural products, as a target group.

### ***Result - Agricultural Investment Center***

This Center was supposed to be a result of the Project for Financial Services in Agriculture and IFAD2 (IFAD, 2010, p. 3). It was expected that advisors that worked for the project would establish a network of professionals which would have a key role in the agricultural and rural development. Unfortunately, based on the results from the primary research, due to financial problems the network was never established and the advisors started working as individual consultants (Dimitrov, L., interview 2011).

### ***Result - Development of the National Extension Agency***

Generally, the reforms of the National Extension Agency supported by the Macedonian Agricultural Advisory Support Program (MAASP) did not mark substantial success. The main reason for that was the status of the National Extension Agency (NEA) as a state agency, which was connected to the Ministry of Agriculture, Forestry and Water Supply (MAFWE), but not under its direct authority. Thus, the management of the NEA had a greater flexibility in its strategy and activities, and the success of the NEA depended greatly on the political will of the management, as well as the political pressures it faced. Also, the headquarters of NEA was in Bitola, which additionally decreased the communication of the related institutions whose headquarters were in the capital Skopje (Georgievski, P. interview 2011).

The Macedonian Agricultural Advisory Support Program planned that the National Extension Agency advisers should be certified and they should charge for their services via voucher system. Based on the results from the primary research, that plan was never implemented because of the existing practice of free public advisory services, as well as the informal government decision about the free public advisory services (Lambevska Domazetovska, V. interview 2011).

### ***Result - Quality Control Laboratory***

The Quality Control Laboratory was a result of the Macedonia Agribusiness Marketing Activity and was further supported by the Seal of Quality and Agribusiness Program. The Quality Control Laboratory was the first private independent laboratory for quality control of the food. It was established as part of the Land O'Lakes Macedonia Agribusiness Marketing Activity (MAMA), financed by the United States Agency for International Development (USAID) in 1999, when the project started implementing the program for quality control of the meat and dairy products, through the Seal of Quality program.

The main activity of the Laboratory for Quality Control was providing technical support to the Seal of Quality program of the Association of Meat and Dairy Processors in Macedonia through trainings and regular testing. Thus it helped the food industry in satisfying the criteria for Good Production Practices, Hazard Analysis and Critical Control Points (HACCP) (Damovska, A. Interview 2010).

It was regulated by law that the export of food products was allowed with confirmation from an accredited laboratory. The efforts of the MAMA project and the

Association of Meat and Dairy Processors for accreditation of the Laboratory were not successful. The explanations are mostly related to the monopoly in this area held by the Veterinarian Institute with the only accredited laboratory as part of it.

After the end of the projects the ownership of the laboratory was transferred to the Association of Meat and Dairy Processors the Association of former project employees. In the mean time the Laboratory was progressively decreasing its operations due to the low interest of the clients because of the missing accreditation of the laboratory. Based on the primary research results, in 2009 two of the members of the Association of the Meat and Dairy Processors bought the ownership stake from the Association of former employees, but that did not put the Laboratory back in business.

### ***Result - Seal of Quality***

The Seal of Quality was a result of the Macedonia Agribusiness Marketing Activity. It was a registered and protected trademark, which represented a certificate (unified and recognizable mark) awarded only to domestic meat and dairy products with checked and consistent quality. The Seal was awarded by the Association of the meat and dairy processors in Macedonia.

The Seal of Quality program in the Republic of Macedonia was conducted from December 1998. The design of the program was based on the results from the research of opinions of the consumers related to domestic meat and dairy products. The results showed that the consumers preferred the domestic products, as long as they were of confirmed and consistent quality. Based on this research the Association of Meat and Dairy Processors in Macedonia with technical, consulting and financial support from the MAMA project created the Seal of Quality program, justifying the trust by its consumers through high and consistent quality of its products.

Main objective of the Seal of Quality program was advancement of the meat and dairy industry through [<http://www.znakzakvalitet.org.mk/defaultm.asp>]:

- Improvement of the quality of the domestic meat and dairy products
- Building awareness and confidence in the quality of the products among the consumers
- Increase of the demand and sales of the domestic products compared to the imported products.

When the Seal of Quality Laboratory stopped its operations, the Seal of Quality program terminated its implementation. The consequences are evident. In 2001 during the promotional campaign for promotion of the Seal of Quality financed by the MAMA project ([www.znakzakvalitet.org.mk/defaultm.asp](http://www.znakzakvalitet.org.mk/defaultm.asp)):

- 84% of the consumers regularly used the products with the Seal of Quality in their meals;
- There was an 85% level of awareness for the Seal of Quality;
- There was 70% level of recognition compared to other signs existing in the market

Currently, there are not any products with the Seal of Quality in the market any more (Kirovski, V. interview 2010).

## ***Result - Federation of Farmers of the Republic of Macedonia***

The Federation of Farmers of the Republic of Macedonia (FFRM) was supported by the Support to Farmers Associations in the Republic of Macedonia (SFARM) project. Based on the primary research findings, systematic problems have been detected after the end of the project support, which influenced the efficiency and effectiveness of the organization. The main discovered problems were related to the involvement of the governance body into the operational issues, unrealistic strategic plan reflecting the effects of the operational planning, monitoring and implementation as well as the weak financial management system. The core business of the FFRM was seen to be intangible and therefore difficult to be sold. This is seen as an obstacle in achieving the financial sustainability.

## **Interviews Findings**

The findings from the interviews are:

- Few of the achieved results of the foreign assistance in the agricultural sector in Macedonia sustained and integrated into the economy;
- In many cases there was a lack of commitment from the beneficiaries' side;
- There was also a low level of farmers' participation in the design and implementation of the projects;
- The level of farmers' organization has not been sufficiently high;
- There was a low level of interest among the beneficiaries for the long-term perspective of the achieved results;
- There was a lack of trust among the farmers, which is a prerequisite to strengthen the cooperation, improve the efficiency and provide sustainable results;
- Beneficiary organizations in many cases did not have sufficient capacity to ensure taking ownership of the results and achieving sustainability;
- Development interventions which have been connected to public institutions usually were easier to become sustainable.

## **Discussion**

Thereby, a crucial issue for taking in consideration is the transfer of ownership of the achieved results, not only the material ownership, but moreover the insurance that the local beneficiaries will adopt the project results as their own and will take the responsibility for their further development. Unfortunately, in a big part of the projects the results are seen only until the project lasts, a short time after its ending (when the financial support ends) the activities of the local beneficiaries are terminated. Very few of the local beneficiaries managed to achieve sustainability of the achieved project results after the end of the project.

The reasons for that are different, but in big part are result of an insufficient political support, i.e. lack of commitment from the beneficiaries' side, but also the low level of their participation in the design and implementation of the projects. Another reason is the low level of interest among the beneficiaries for the long-term perspective of the achieved results.



The socio-cultural aspects have also their role in the insufficient sustainability of the projects. One example of that is the lack of trust among the farmers, which would strengthen the cooperation, improve the efficiency and provide sustainable results.

The institutional aspects are among the most important reasons for the low level of sustainability. Development interventions which have been connected to public institutions usually are easier to become sustainable, as opposed to the ones related to the civil sector where the capacity is not yet fully developed and thus, does not enable sustainability of the results.

And when all of the above is taken in consideration, one comes to the issue of economic and financial aspects. Namely, in Macedonia, after its independence, the donors invested more than 360 million euro in the agricultural sector (SEI CDAD, 2011). The development interventions were relevant, but inefficient, effective, with some impact and with no significant results when it comes to sustainability. In that sense, it is logical to question the justification of those donors' investments.

In any case, one has to take in consideration the external factors, i.e. the political instability that even escalated into an armed conflict in 2001, as well as the transition period, which in a great extent influenced the entire development of the country.

## Conclusions and Recommendations

It is a fact that agriculture is an important and priority economic activity in the national policy in Macedonia. In addition, the sector has received a substantial support from the foreign donors in all its components: public, private and civil sector. These are the main conclusions from this paper:

- The agricultural sector in Macedonia has not yet reached the necessary level of competitiveness, especially having in mind the EU integration aspirations of the country, which would mean entering a common market where only the best survive. Having in mind that the foreign donor investments have been directly or indirectly focused on improving the competitiveness of the Macedonian agriculture their relevance is obvious. In the upcoming period the domestic and foreign support to the agricultural sector is necessary;
- The exit strategies of many of the bilateral donors in Macedonia, expecting that the EU accession will happen soon, are premature. Due to the unresolved issue around the constitutional name of the Republic of Macedonia with the neighboring Greece, but also because of the EU expansion policy, the entry of Macedonia in EU is still very uncertain. Still, a great number of bilateral donors are withdrawing or have withdrawn from Macedonia, and in the mean time it has to rely on the pre-accession assistance, which cannot fully replace the one provided by the bilateral donors;
- Alignment of the donor strategies for the country with the national strategies is of a primary importance for achieving results. The general directions of the foreign donors in Macedonia have been generally aligned with the national ones, but not always with the same order of priorities. Thus, the projects that included components of support to the governmental institutions (especially assistance referring to meeting the requirements and criteria for

EU membership) in a great extent achieved sustainability than those focused on support to the civil sector. That shows the low priority that the Macedonian government has been giving to the development of the civil sector, as opposed to the foreign donors who have been aware of the importance of the civil society for the overall development of the country;

- The success of the private sector is more visible and in a greater extent sustainable because of the recognition and taking over of the ownership. Part of the projects have given their support to the private entrepreneurs and depending on their vision, objectives and quality of the business plan and its implementation, and in a great extent on the entrepreneurial spirit of the beneficiaries, the sustainability of the results of those projects is greater;
- The activities of the foreign donors have not always been coordinated among themselves and with those of the governmental institutions. The Central Donor Assistance Database (CDAD) and the donor conferences organized by the Secretariat for European Issues (and supported by the United Nations Development Program) have been attempts for a better inter-donor coordination, but have not achieved full efficiency of the donor assistance;
- The over usage of expensive foreign human resources and expertise when it exists locally and is much cheaper in a great extent reduces the efficiency of the projects;
- Very little the donors have used the participatory approach during the design phase of their projects. The participatory approach would lead towards inclusion of the beneficiaries from the donor support in the starting idea of the project. Because of the lack of the participatory approach it has been very difficult to develop the sense of ownership and responsibility by the local beneficiaries and their commitment for further sustainable development of the results achieved by the foreign donor projects;
- During the implementation of the projects greater attention is placed on their effectiveness and achieving the short and medium-term objectives and less attention on the sustainability of their results on a long term. Thus, in a great extent the beneficiaries have been receiving the services and support from the projects for free without being made aware for their real market value. That has not prevented the achievement of the planned projects objectives, the activities have been implemented. However, it has in a great extent prevented the achievement of the sustainability after the end of the projects since the beneficiaries don't know the real market value of the products and services they are getting for free and they are not ready to pay for them once the projects end, since they have been receiving them for free for a long period of time;
- Some of the bilateral donors have withdrawn from Macedonia because of the progress in the EU accession of the country, but there are still some who are continuing the support. In any case, it is expected that the EU will be the main source of assistance in the agricultural sector in the coming period.
- The period of the greatest donor assistance in the agricultural sector is at the same time the period with constant decline of the arable land, livestock and increase of the poverty. The foreign donor investments did not succeed to

eliminate the negative effects of the political immaturity and instability of the country, the bad privatization process, and the long period of transition.

From the analysis and discussion it can be concluded that in the analyzed cases from Macedonia the achieved sustainability of the results is not on a required level. The factors that contributed to this can be seen in the lack of political support, socio-cultural aspects, institutional aspects, economic and financial aspects as well as the external factors.

We can distinguish three different groups of stakeholders when it comes to foreign donor projects in the agricultural sector: government authorities, donors and farmers. Thus, the recommendations of this paper refer to them.

The *government authorities* should be proactive in cooperation with the foreign donors. It should have mechanisms which will ensure that the donors' country strategies are in line with the national strategies. In that way both, foreign donors and government authorities would work towards achieving the same objectives and building the capacities of the local beneficiaries (public, as well as private and civil society) as one of the conditions for achieving sustainability. By building the capacity of the beneficiaries the level of commitment and interest in the long-term perspectives will increase. The government should show a greater interest in taking the ownership of the results of the foreign donor missions, thus providing a good basis for achieving long-term sustainability.

The *foreign donors* should use the participatory approach in the project design. That means including the beneficiaries in the very early stage with the aim of better understanding of their needs, as well as the opportunities and development directions. The donors should accommodate to the local conditions and traditions in the country in order to achieve better commitment of the local beneficiaries. They should be more focused on the long-term sustainability of the achieved results. The key issue there, is the gradual transfer of ownership to the local beneficiaries (in the public, private or civil sector), which, if included in the process in time and to a sufficient extent, would be able to continue the started development and achieve sustainability of the results. At the same time, great focus should be given to the institutional capacity development in order to strengthen the beneficiary organization to the level that would ensure achieved sustainability after the end of the donor support.

The *farmers* should recognize the need for being organized, and thus cooperate, and be a pro-active partner to the donors and the government authorities. Building strong organizations will give them the necessary capacity to express their needs and interests, thus influencing the national and donor strategies in the agricultural sector. That will make them a relevant partner who should participate in projects design and implementation, and increase their level of commitment and responsibility of the sustainability of projects' results. The farmers must see themselves as an important factor who eventually takes ownership of the achieved results providing an institutional framework for them within farmers' organizations.

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### ANNEX 1 – LIST OF INTERVIEWEES

1. Chukaliev, Ordan. [Professor on irrigation at the faculty for Agricultural Sciences and Food – Skopje] Interview. 30 November 2010
2. Damovska, Ana [Director of the Seal of Quality Program] Interview. 15 September 2010
3. Dimitrievska, Suzana [President of the Cooperative Demetra] Interview. 3 November 2011
4. Dimitrievski, Dragi [Dean of the Faculty of Agricultural Science and Food] Interview. 23 September 2010
5. Dimitrov, Lazo. [former Manager of the Agricultural Investment Center] Interview. 27 October 2010
6. Dimkovski, Trajan [Director of the Federation of Farmers of the RM] Interview. 26 October 2011
7. Dzartova-Petrovska, Biljana [Senior Development Cooperation Adviser] Interview. 21 November 2011
8. Gjorgjievski, Petar [employee of the MAASP project] Interview. 17 September 2010
9. Hadzievski, Vasko [Deputy Director of the AgBiz Program] Interview. 2 November 2011
10. Kiroski, Vladimir [Executive Secretary of the Association of Meat and Dairy Processors] Interview. 15 September 2010
11. Kostaska, Katerina [Deputy Minister of the Ministry of Economy of the RM], 31 October 2011
12. Kostov, Vasil [Director of the Livestock Institute of the RM] Interview. 11 November 2011
13. Lambevaska Domazetovska, Vesela [employee of the MAASP project] Interview. 17 September 2010
14. Lundin, Sten-Rune [Director of the SFARM project] Interview. 20 September 2010

15. Nikolovski, Aleksandar [President of Fagricom] Interview. 30 October 2011
16. Petrovski, Dejan [Manager of the First Grape-growers Cooperative] Interview. 10 November 2011
17. Shkrielj, Sanela [Project Coordinator of the Association for Local and Rural Development] Interview. 3 November 2011

## **ANNEX 2 – INTERVIEW QUESTIONNAIRE**

1. What have been the results of the foreign assistance in the agriculture in which you have been involved (as an employee, beneficiary, expert or similar)?
2. Have those results sustained to date?
3. What have been the reasons for that?
4. How do you evaluate the beneficiary’s commitment related to the foreign assistance in the agricultural sector in Macedonia?
5. Has the choice of technology influenced the sustainability of the foreign assistance in the agricultural sector in RM?
6. Has there been any environmental policy and regulatory measures that might influenced the sustainability of the foreign assistance in the agricultural sector in RM?
7. Has the foreign assistance in the sector been consistent with the local traditions? Do you think there have been any socio-cultural factors that could influence the sustainability?
8. Have the beneficiary organizations had the sufficient capacity (management, administration, HR and financial systems) to ensure sustainability?
9. Have the interventions been economically justified?
10. Have external factors (political, economic and cultural environment) influenced the sustainability?



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## NON- PERFORMING LOANS IN THE BANKING SYSTEMS OF SERBIA, CROATIA AND MACEDONIA: COMPARATIVE ANALYSIS

### Abstract

*The aim of this paper is to evaluate the level of NPL loans in banking systems of the three sample Balkan countries. The special attention is dedicated to the level of NPL loans and their ratio compare to total loans. The quality of credit portfolio is important determinant in future bank strategies, thereby it's important for the economic development of the whole country. The NPL loans affect the economic development through the credit activity which influence on the consumption and the capital adequacy ratio which constrain the possibility of growth. Thus creating a spiral and higher NPL ratio create low economic growth and low growth creates further NPL portfolio. In this paper analysis will be focused to compare the data of quality of credit portfolio in Macedonia, Serbia and Croatia. The comparative analysis will outline the differences in the quality of the portfolios in sample countries as well as the reasons for the differences. The reasons for higher resilience of some banking systems portfolios compared to others can be used as a valuable tool for enhancing the stability of the banking systems. These three countries are chosen because they had high credit growth in the past until the financial crises, they were affected by the crisis in the same time and their banking systems are dominantly owned by foreign banks.*

**Keywords:** Credit portfolio, NPL, banking systems, growth rate

**JEL classification:** G21, G01

## НЕНАПЛАТИВИ КРЕДИТИ У БАНКАРСКОМ СИСТЕМУ СРБИЈЕ, ХРВАТСКЕ И МАКЕДОНИЈЕ КОМПАРАТИВНА АНАЛИЗА

### Апстракт

*Циљ овог рада је да се процени степен ненаплативих кредита (НПЛ) кредита у банкарским системима три узорка из три балканске земље. Посебна пажња је посвећена нивоу ненаплативих (НПЛ) кредита и њихов однос у поређењу са укупним кредитима. Квалитет кредитног портфолија је битна*

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*одредница у будућим стратегијама банака, то је важно за економски развој целе земље. Ненаплативи кредити (НПЛ) могу утицати на економски развој кроз кредитне активности које утичу на потрошњу и стопе адекватности капитала који ограничавају могућност раста. Стварајући спиралу и већу ненаплативост кредита (НПЛ) створа се низак привредни раст а низак раст ствара додатну ненаплативост кредита (НПЛ) портфолио. У анализи овог рада бићемо фокусирани на упоредне податке квалитета кредитног портфолија у Македонији, Србији и Хрватској. Компаративна анализа ће нагласити разлике у квалитету портфолиа на узорку земаља, као и разлоге за разлике. Разлози за високу отпорност неких банкарских система портфолија у односу на друге може да се користи као драгоцено средство за јачање стабилности банкарског система. Ове три земље су одабране јер су имале висок кредитни раст у прошлости до финансијске кризе, оне су погођена кризом у исто време и њихови банкарски системи су доминантно у власништву страних банака.*

**Кључне речи:** *Кредитни портфолио, ненаплативи кредити (НПЛ), банкарски системи, стопа раста.*

## Introduction

The banking sector is considered to be an important source of financing for most businesses. According to Dreca (Dreca, 2012), the increase in the financial performance leads to more improved functions and activities of any organization. The condition on banking system has effect on total economy of the country (Dreca, 2012), because banks are the sources of finance for better job opportunities, development of new ideas; research and overall prosperity. The factors that influence performance of banks are: bank size measured by its assets, profitability measured by returns on assets and equity, size of deposits and loans, as well as the percentage of non-performing loans in the total loans.

Recent transatlantic financial crisis experience suggests that the state of the banking sector and developments in real economy are strongly interconnected. The non-performing loans are one of the major causes of the economic stagnation problems. Each non-performing loan in the financial sector is viewed as an obverse mirror image of an ailing unprofitable enterprise (Hou & Dickinson, 2007). From this point of view, the reduction of non-performing loans is a necessary condition to improve the economic status. If the non-performing loans are kept existing and continuously rolled over, the resources are locked up in unprofitable sectors; thus, hindering the economic growth and impairing the economic efficiency. Also the impairment for bad loans decreases the solvency position and the risk profile of the banks. Refraining from lending, through decreased consumption and bankrupt companies, further lowers economic activity and lower economic activity produces more NPL loans. So a spiral is created that which harms the banking system and the economy as a whole.

The literature identifies two sets of factors to explain the evolution of NPLs over time (IMF, 2013). According to IMF, the one group focuses on external events such as

the overall macroeconomic conditions, which are likely to affect the borrowers' capacity to repay their loans, while the second group, which looks more at the variability of NPLs across banks, attributes the level of non-performing loans to bank-level factors. The econometric analysis of the empirical determinants of NPLs presented suggests that real GDP growth was the main driver of non-performing loan ratios during the past decade. Therefore, a drop in global economic activity remains the most important risk for bank asset quality (ECB, 2013). Some other authors connect the NPL loans with the intensity of credit growth in the past (Espinoza & Prasad, 2010), the leverage of corporate clients (Glen & Mondragón-Vélezand, 2011) or unemployment rate (Louzis, Vouldis & Metaxas, 2010). So the level of NPL loans can be affected by different macroeconomic factors which require careful analysis of the reasons for their occurrence.

The boom-bust cycle has left a legacy of high non-performing loans (NPLs) in various countries in Central, Eastern and Southeastern Europe (“Vienna” Initiative, 2012). Very high credit growth during 2003-08 gave rise to an unsustainable boom that ended abruptly with the global financial crisis of 2008/09. The high credit growth was followed by deep recession that brought many of the accumulated underlying problems to the fore, including poor quality of some loans in banks' books. This paper will determine the quality of credit portfolio in three sample Western Balkan countries: Macedonia, Serbia and Croatia. The aim of the analysis will be to reveal the differences in NPL level in the sample countries in order to discover the reasons for these differences. The analysis of the quality of the credit portfolio has obligatory included the share of NPL loans. In all sample countries the definitions for NPL loans are similar which is precondition for comparative analysis. Loan is considered non-performing when it has not been collected in more than 90 days from the date of maturity. Another important aspect in the NPL ratio analysis is the credit growth. In period of low credit growth the NPL ratio grows because the denominator in the equation remains unchanged and the natural process of aging of the portfolio produces growth of NPL loans. The analysis will be conducted by segments, corporate loans and retail loan with the conclusions about the resistance of each portfolio.

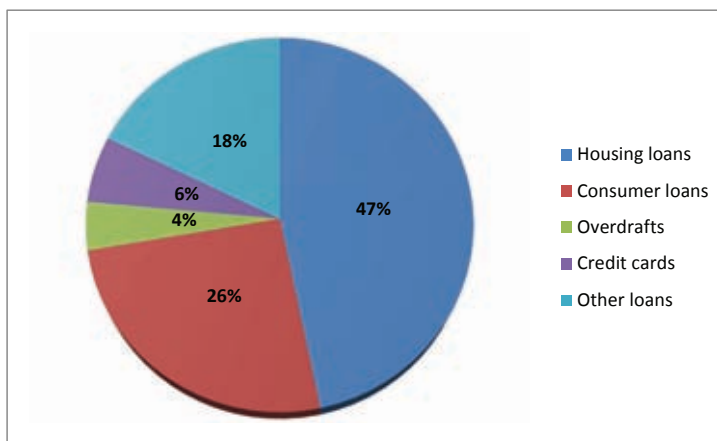
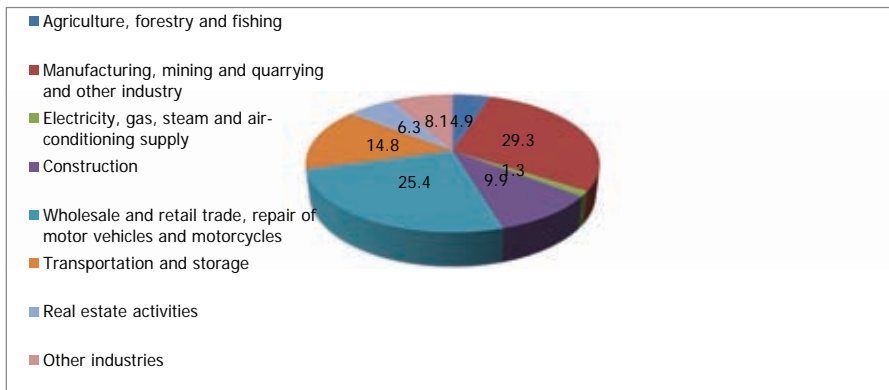
## NPL in Serbian banking system

The structure in the credit portfolio in Serbia is in favor of corporate loan with share of 57%, while the retail loans participate with 43% (Central Bank of Serbia, 2014). This structure has remained unchanged in the last 6 years.

The analysis of the corporate portfolio shows that the banking system is dominantly exposed toward manufacturing (29%) and trade (25%) (Figure 1). Next by size are the portfolios of transport industry (14%) and construction (9,9%). The share of trade industry is large and is determined by the economic development. More developed economy has developed industry which needs credit support. Also the industry sector is more financially extensive and bigger credit support is needed. In deficiency of strong industrial sector who can export its goods, Serbian banks are turned towards wholesale and retail trade sectors (Jolevska & Andovski, 2014).

Regarding the retail portfolios, housing loans are dominant with 47% share (Figure 1). Second portfolio by size is the consumer loan portfolio with 26% share. The size of housing loan portfolio is indicator of expectations for good prospects in the past.

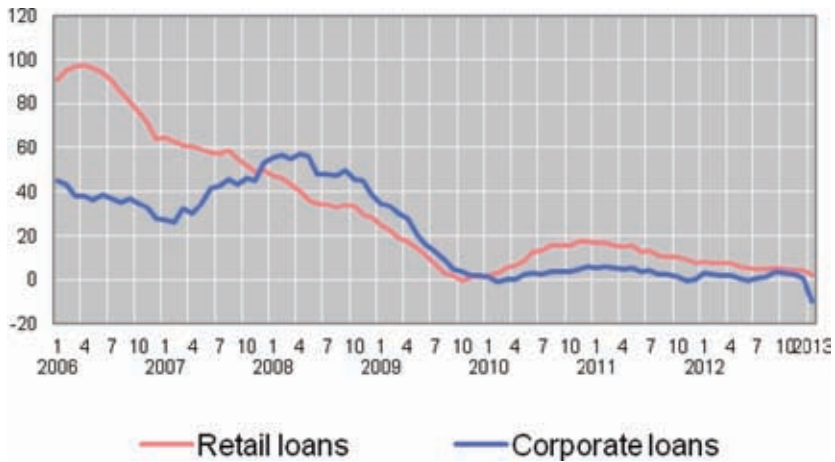
Figure 1: Structure of retail and corporate portfolios



Source: Banking sector of Serbia, Fourth Quarter Report 2013, Central Bank of Serbia

As it is mentioned earlier, another aspect for the analysis of NPL loans ratio is the credit growth. As can be seen in Figure 2, the Serbian banking sector marked double-digit growth before 2009. The effects of the global financial crisis were anticipated late and during the end of 2009 the growth was under 3%. 2013 has a trend of decline in the loan portfolio, especially at corporate loans. According to Filipovic and Hadžić (Filipovic & Hadžić, 2013) the Global Crisis has started to influence the national economy at the late 2008 and first negative impact was reported even before on Belgrade stock exchange, when foreign investors simply left the market. The banking sector was in better shape than in other transitory economies, considering high capital adequacy ratio, satisfied liquidity, safe deposits and low risk. The Central Bank has introduced urgent measures in order to increase liquidity and concluded so – called Wiener agreement with foreign banks, which prevailed in the banking sector. The measures introduced by the Central bank and by the Government were in right direction, but weak and the solution to overcome the crisis safely was seen in stand - by arrangement with IMF.

Figure 2: Credit growth in Serbian banking system



Source: Annual Financial Stability Report - 2013, Central Bank of Serbia

The NPL ratio in Serbian banking system at the end of 2013 was 21%. The main driver of the high level of NPL loans were corporate loans. The world financial crisis had negative impact on banking figures starting from 2009. Still, in 2008 the NPL ratio in Serbia was higher than 11% which was due of the high credit growth in the past. The effects of the financial crisis were 10 basis points higher NPL ratio.

Table 1: Share of NPL in total loans in corporate sector in Serbian banking sector

Share of NPL in total loans	Q4 2010	Q4 2011	Q4 2012	Q3 2013
Agriculture, forestry and fishing	36.80%	29.80%	17.20%	15.40%
Manufacturing, mining and quarrying and other industry	23%	24.50%	18.50%	25.20%
Electricity, gas, steam and air-conditioning supply	3%	3%	3.70%	3.20%
Construction	19%	26.70%	45.10%	53.00%
Wholesale and retail trade, repair of motor vehicles and motorcycles	20%	22.50%	17.50%	29.00%
Transportation and storage	16%	14.20%	8.50%	13.90%
Real estate activities	23.40%	38.30%	37.40%	40.00%
Other industries				

Source: Banking sector of Serbia, reports 2010-2013, Central Bank of Serbia

The construction was the most affected industry with 53% NPL ratio and real estate activities with 40% NPL ratio (Table 1). The manufacturing industry felt the financial crisis first because of the small quantities of export at EU partners. In the last year there is deterioration in the credit worthiness of client from retail industry. Further declining in banking support will create new NPL loans and further deterioration in the economic activity of whole economy.

Regarding the retail portfolio, this portfolio is with the better quality (Table 2). The product that has higher level of NPL is over draft which is due of increasing of the unemployment rate. Also credit cards and consumer loans NPL ratios have upside trend and are due of aging of the portfolio which was created before 2008.

Table 2: Share of NPL in total loans in retail sector in Serbian banking sector

Share of NPL loans	2010	2011	2012	2013, Q3
Housing loans	6%	6%	6%	7%
Consumer loans	9%	9%	13%	12%
Overdrafts	15%	16%	14%	14%
Credit cards	11%	12%	12%	13%
Other loans			18%	18%

Source: Banking sector of Serbia, reports 2010-2013, Central Bank of Serbia

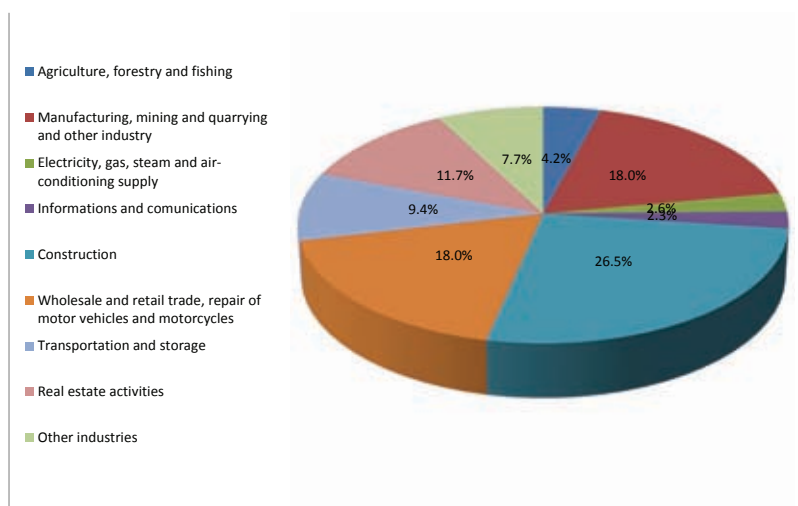
According to Filipovic and Hadžić (Filipovic & Hadžić, 2013) development of Serbian banking sector is limited now by weak corporate sector and low income citizens. Banks, for time being, found solution into reorientation of crediting from corporate sector, as too risky, to government and public sector, as less risky. However, it is not long lasting solution. The enhancement of real economy and public sector can open room for further development of the banking sector, which one can expect to be only performed in circumstances of global recovery.

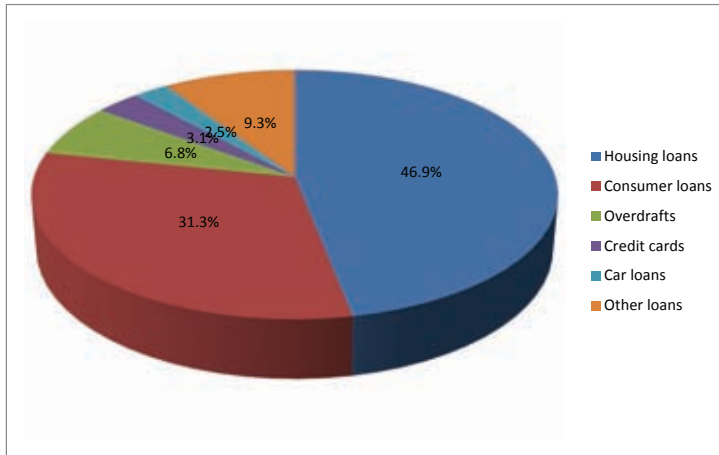
### NPL in Croatian banking system

The loan portfolio of Croatian banks is dominated by retail loans (Central Bank of Croatia, 2014). This fact indicates for possible indebtedness of the population and is not in function of economic development.

In retail loan structure dominant portfolio, with almost 50% share, is the housing portfolio which was created before 2008 in perception of good prospects of the economy. The second largest portfolio is the consumer loans portfolio. The corporate portfolio is dominated by construction industry portfolio with 26% share and trade with 18% (Figure 3).

Figure 3: Structure of retail and corporate portfolios

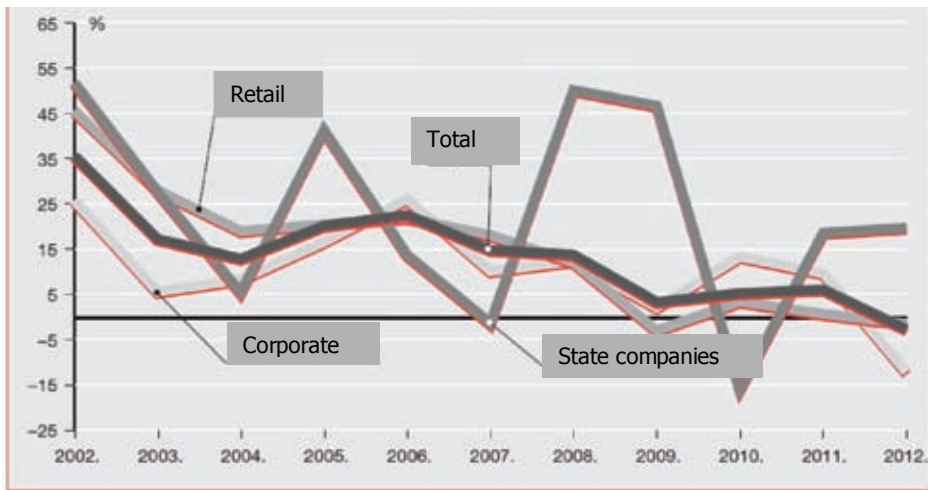




Source: Banks Bulletin for 2013, Central Bank of Croatia

The Croatian banking system in the last two years was in a process of deleveraging which was due of the high NPL rates but also from Basel III standards and their effects on the parent bank companies. This process is the mostly present at corporate portfolio where in 2012 there was decrease of the size of portfolio for 15% but the retail portfolio recorded negative growth rates, too (Figure 4).

Figure 4: Growth in credit exposure by segments for period 2002-2012



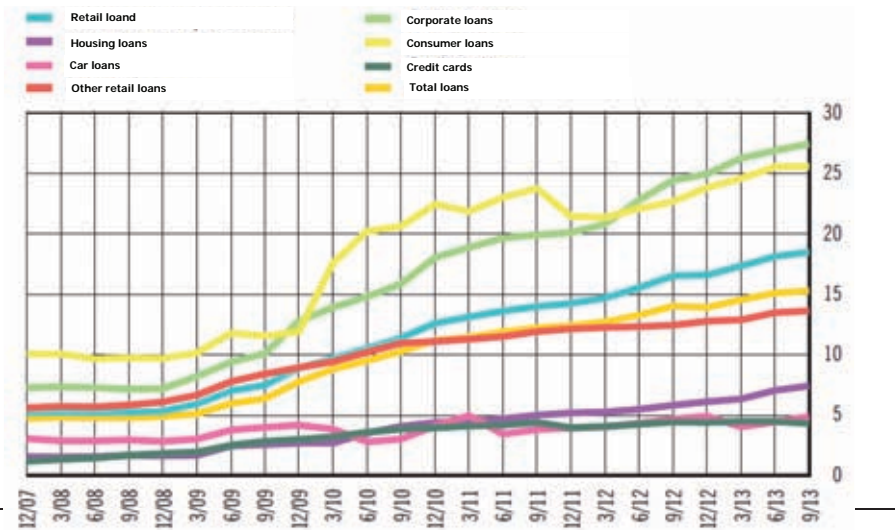
Source: Financial stability report for 2012, Central Bank of Croatia

The level of NPL loans at the end of 2013 is 15% and the trend is upward constantly. The main drivers of the NPL ratio are corporate loans with 27% NPL ratio (Figure 5). Of course, the high level of NPL loans is due of the structure of corporate

portfolio where the construction portfolio has biggest share. What reflect the creditability of the population are consumer loans where the NPL ratio is around 25% and the trend is upward, too. But the quality of this portfolio is due of the huge credit expansion before 2008 and not only on financial crisis. The NPL ratio of this portfolio before 2009 was around 10% which was double than the riskiness of total loan portfolio in 2008.

Due to the prolonged recession, NPL ratio in Croatia is becoming an increasingly important determinant of banking sector performance. According to Central Bank of Croatia (Central Bank of Croatia, 2013), on one hand, the value adjustment costs are burden on banks' capital, and on the other hand the NPL assets immobilize a considerable share of banks' balance sheets by burdening current or potential future credit growth. All Croatian banks in this period are particularly focused on recovery of NPL assets. Still, (Central Bank of Croatia, 2013) Croatia is in the group of countries where creditors spend an above average amount of time for collecting claims. So we can't expect fast reduction in NPL ratio.

Figure 5: Level of NPL loans by segments in Croatian banking system

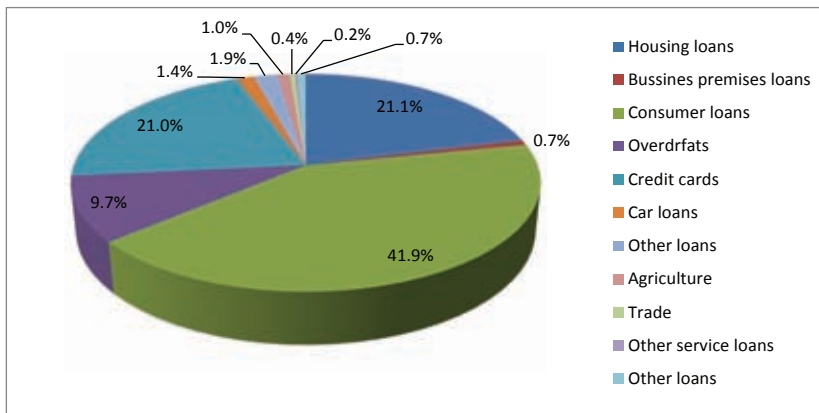
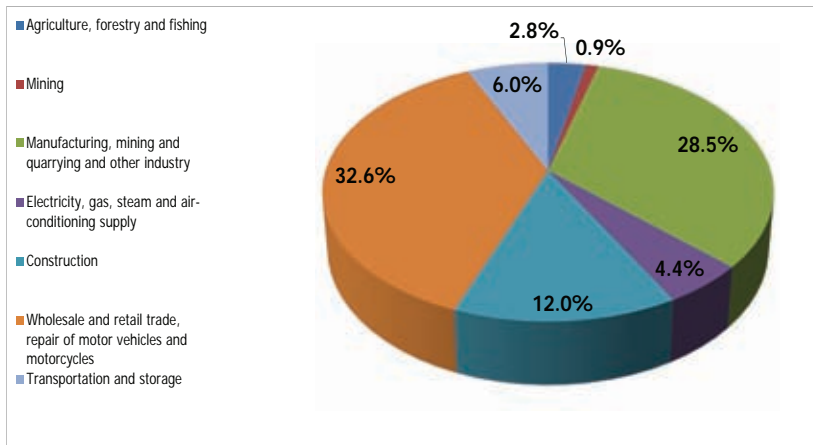


Source: Banks Bulletin for third quarter of 2013, Central Bank of Croatia

## NPL in Macedonian banking system

At the end of 2013 the structure of loan portfolio is in favor of corporate loans with 61% share (NBRM, 2014). This structure hasn't been changed in the last 5 years.

Figure 6: Structure of corporate and retail credit portfolio in Macedonian banking sector



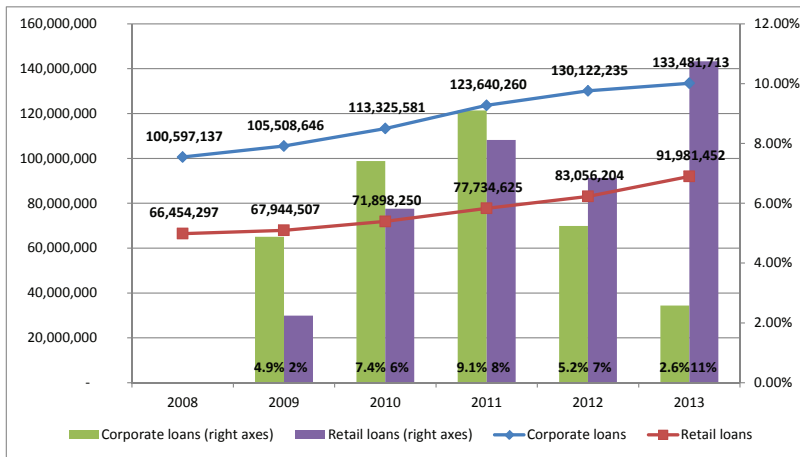
Source: Report on the risks in the banking system of the Republic of Macedonia in 2013, NBRM

The corporate portfolio is dominated by trade industry with 33% share, manufacturing industry with 29% share and construction with 12% share (Figure 6). Regarding the retail portfolio, the structure is different from the other sample countries. Dominant portfolio is the consumer loan portfolio with 42% share, followed by credit card portfolio and housing portfolio with 21% share both. So, the structure of the portfolio is trait of the economy, in absence of strong industry, the trade portfolio is dominant corporate portfolio and weak power consumption at citizens resulted in big consumer loans and credit card portfolio instead of housing portfolio.

The financial crisis had impact on Macedonian banking system starting from 2009 when the rates of growth were single-digit numbers (Figure 7).



Figure 7: Growth in credit exposure by segments in Macedonian banking system for period 2008-2013

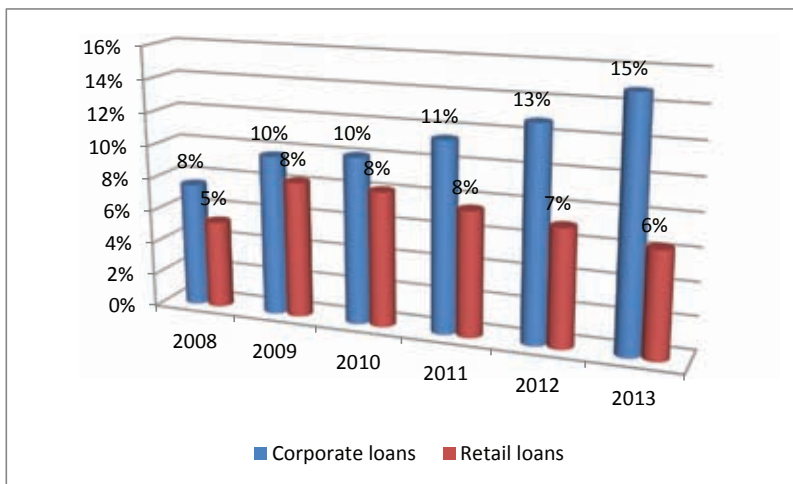


Source: Report on the risks in the banking system of the Republic of Macedonia 2008-2013, NBRM

Until 2011 the credit support was directed toward corporate sector. But, the continuing effects of the financial crisis and then the debt crisis in EU resulted in upward trend of NPL loans so starting from 2012 the retail credit portfolio had bigger rates of growth.

Macedonian banking sector was encountered by the financial crisis with 8% NPL ratio at corporate portfolio and 5% at retail portfolio (Figure 8). In the next two years the retail NPL had bigger growth which was due more of weak standards which created this portfolio before 2008. The real effects on corporate portfolio of continuing weak economic activities the corporate sector felt in 2012 and 2013 when the NPL ratio was 15%. Of course, the NPL ratio is growing because of the smaller credit support in this segment.

Figure 8: NPL ratio by segments in Macedonian banking system for period 2008-2013



Source: Report on the risks in the banking system of the Republic of Macedonia 2008-2013, NBRM

Quite opposite, after the loans at over indebted clients were cleared, the banking sector continued with credit support of retail sector and the NPL ratio in last two years felt. The industry analysis shows that manufacturing industry was first that felt the negative implications from the financial crisis and then debt crisis. Also like in the other sample countries the construction is the second most risky portfolio.

Table 3: NPL ratio by industry in corporate portfolio in Macedonian banking system on 31.12.2013

	2008	2009	2010	2011	2012	2013	Share in total NPL
Wholesale and retail trade, repair of motor vehicles and motorcycles	7%	7%	7%	8%	9%	10%	33%
Manufacturing, mining and quarrying and other industry	10%	16%	17%	17%	20%	20%	29%
Construction	10%	7%	7%	10%	18%	18%	12%
Transportation and storage	5%	8%	7%	9%	12%	9%	6%
Electricity, gas, steam and air-conditioning supply	0%	0%	0%	0%	21%	21%	4%

Source: Report on the risks in the banking system of the Republic of Macedonia 2013, NBRM

In the retail segment car loans and credit cards are the most risky portfolios. The high level of car NPL loans is due because of significant reduction of the portfolio which resulted with growth of NPL ratio. Part of the credit cards portfolio by its characteristics is consumer loans and should be analyzed together. Still total NPL ratio at retail segment is 6% which is indicator for better portfolio than the sample countries (Table 4).

Table 4: NPL ratio by product in retail portfolio in Macedonian banking system on 31.12.2013

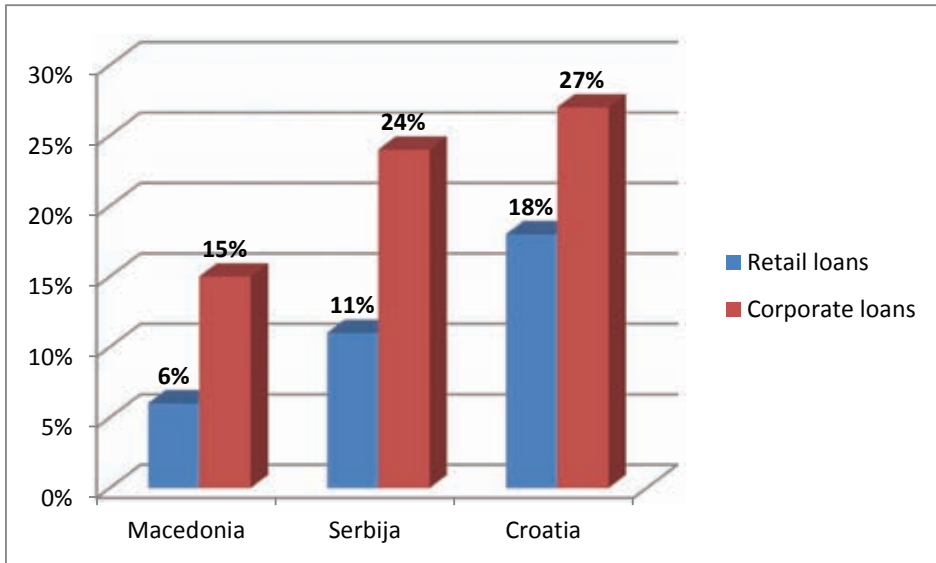
	2008	2009	2010	2011	2012	2013	Share in total NPL
Consumer loans	7%	11%	10%	8%	8%	6%	42%
Housing loans	2%	4%	4%	3%	3%	3%	21%
Credit cards	6%	9%	9%	10%	10%	10%	21%
Overdrafts	8%	8%	8%	8%	8%	8%	10%
Other loans	6%	34%	8%	13%	9%	10%	2%
Car loans	2%	5%	7%	8%	10%	14%	1%

Source: Report on the risks in the banking system of the Republic of Macedonia 2013, NBRM

## Comparative analysis

The comparative analysis in sample countries shows better quality of retail loans despite corporate loans. NPL ratio in Macedonia is much better against the other sample countries (Figure 9).

Figure 9: NPL ratios in sample countries by segments at the end of 2013



Source: Reports for banking systems for sample countries, 2013

The differences in quality of retail portfolio arising from two reasons: the level of exposure and the trend of unemployment rate. Macedonian citizens are least exposed as a percentage in GDP and per capita (Table 5). The double-digit rates of growth before 2008 with weakened credit standards copped the banking system with portfolio which was very vulnerable of economic activities. The country with highest retail loan portfolio compared to GDP has the banking system with the highest NPL ratio.

Table 5: Share of retail loans in GDP and exposure per capita in sample countries

	Retail loans/GDP %	Exposure per capita in eur
Bosnia	27.3%	939
Croatia	38.0%	3,936
Bulgaria	24.0%	1,318
Macedonia	15.6%	727
Serbia	18.6%	751

Source: CEE Banking Sector Report for 2013, Raiffeisen Research

The other factor that affected the quality of retail portfolio was the unemployment rate (Figure 10). In Serbia and Croatia the unemployment rate after 2009 rose by 10 respectively 9 basis points. In Macedonia the unemployment rate for this period

remained unchanged and even dropped by 3 basis points. The best indicator for trends in unemployment rate is the NPL ratio of overdrafts which depend on citizen wages. In Serbia and Croatia this ratio is around 15% and in Macedonia the NPL ratio of overdrafts is stable and is around 8%.

Figure 10: Unemployment rate of sample countries

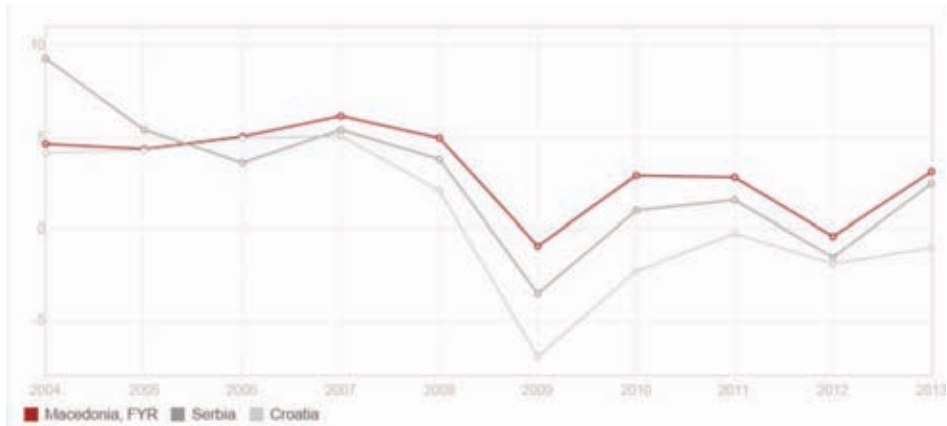


Source:www.tradingeconomics.com

The quality of corporate portfolio is predetermined by the previous credit activity before the financial crisis and the resistance of the economy of recession. Croatian banking system has highest NPL corporate ratio because it was exposed mainly toward construction industry which is first faced by impact of financial turmoil. This portfolio has worst quality in all three sample countries. The second factor is the exposure toward manufacture industry which is export oriented and dependent on orders from commercial partners mostly from EU countries. The third factor which is confirmed by numerous researches is the GDP movement and the resistance of the economy of negative economic

movements. Croatia and Serbia economy had much more detrimental consequences from the financial crisis in 2009 than Macedonian economy (Figure 11). This trend continued until 2013. The banking system is mirror of the real economy and worsening economic performance had its impact on the banking systems.

Figure 11: GDP growth in sample countries for period 2004-2013



Source: World Bank statistics, 2014

## Conclusion

The analyze in the three sample countries shows that the circumstances before the financial crisis that affected with high credit growth and the financial crisis and EU debt crisis had impact on the quality of credit portfolio. Still, although the trend of deterioration is present in all sample countries the intensity and effects are quite different. Most negative effects and greatest deterioration in the quality of portfolio is observed in Croatia. This is due to the structure of credit growth before the financial crisis. The banking sector largest portfolios are construction at corporate portfolio and housing loans at retail portfolio. Construction industry is highly volatile on economic downturns an as a result of the recession there was increased unemployment which affected the housing loans and consumer loans. The analyze of the quality of loan portfolio of Serbian banking sector shows that large part of NPL loans are due of excessive risk taking before 2008 when the NPL rate reached 11%. Still, prolonged recession in EU through demand had impact on export and the credit ability of exporters and then the economic downturn affected the rest of corporate sector leaving major consequences on exposure towards construction. The increased unemployment affected especially the consumer loans and credit cards. Macedonian banking sector had lowest effect from the financial crisis but still the trend of deterioration is upward. This is due to the fact, which is confirmed by numerous researches, that the GDP reduction was smaller and accordingly the impact on portfolio quality was smaller. Croatia and Serbia economy had much more detrimental consequences from the financial crisis in 2009 than Macedonian

economy. GDP reduction off course is connected to macroeconomic policy. Macedonia before the crisis was low indebted country which was used by economic policy makers to increase the debt in crisis in order to overcome the negative impact of the crisis. Also Macedonian economy didn't face with increased unemployment which contributed the quality of retail portfolio to remain stable. Another thing that we must have in mind for the analysis the NPL ratios in the future is the new NPL definition of EBA (EBA, 2013) which is more rigid than the current NPL definition in sample countries.

The challenge for all three countries in the future is how to encourage growth in the real sector. If the low rates of growth of the loan portfolio of companies continue, then it will continue the trend of deterioration of its quality. With some time lag the quality of retail portfolio will deteriorate. Also another issue that the sample jurisdictions must solve is how to create more incentives to have faster resolving of bad loans.

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## ECONOMIC VALUES IN THE CONSTITUTIONAL PREAMBLES

### Abstract

*The economic values and categories within the constitutional preamble appear in this work as a subject of the special interest. In the contrast to the primary center of gravity of classical legal thought when it researches the constitutional preamble, the pendulum will be slightly shifted towards questionable of position and the way in which constitutional preambles regulate issues of economic values and categories. We do not regard this question less significant compared to the usual literary manners of preamble study. It is our understanding of the importance of constitutional attitudes towards to the vital issues of the state and security that started us to begin exploring of this problem, in the context of an established thematic framework of this paper. There is no doubt that legislators in the preambles treat various issues in different ways, depending on the gravity of priority. Rarely, we could find constitutions without preambles, constitutions with technical preambles and with preambles, almost entirely, faced toward the past. However, for this paper is interesting preambles which texts could be characterized as a futuristic projection and perspective, because, among them we want to find the essence of the legislators' attitudes to economic issues.*

**Key words:** preamble, constitution, law, economic value, economic justice

**JEL Classification:** K10, K30, K40

## ЕКОНОМСКЕ ВРЕДНОСТИ У УСТАВНИМ ПРЕАМБУЛАМА

### Апстракт

*Као предмет посебног предметног интересовања у овом раду појављују се економске вредности и категорије у оквирима уставних преамбула. За разлику од примарног тежишта класичне правне мисли када се бави истраживањем уставних преамбула, клатно ће бити благо померено ка упитаности позиције и начина на који се уставним преамбулама регулишу питања економских категорија и вредности. Ово питање не сматрамо никако мање значајним у односу на уобичајене литерарне манире проучавања преамбула. Управо наше разумевање значаја ставова уставотвораца према виталним питањима државе и друштва нас је и покренуло да се позабавимо овим проблемима, у контексту успостављеном тематским оквиром овог рада. Нема сумње да се преамбулама уставотворци опходе према разним питањима на различите начине, у зависности*

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*од тога чему ће давати степен тежишног приоритета. Истина ређе, наићиће се и на уставе без преамбула, на уставе са техничким преамбулама, као и на уставе чије су преамбуле окренуте, готово у целости, ка прошлости. Међутим, за овај рад су интересантне оне преамбуле, чији се текстови могу окарактерисати као футуристичке пројекције и перспективе. Јер, међу њима се жели открити суштина ставова уставотвораца у односу према економским питањима.*

**Кључне речи:** *преамбула, устав, право, економске вредности, економска правда.*

## Introduction

Consideration of the preamble could be multiple useful from the stand point of the Constitutional law. On the one hand, man gets the general impression of the structural composition of the constitutional text, and it is expedient to answer on the question about the number of constitutions that contain preamble, in order to reach standardized formulas of technical structuring a constitutional text. Respectively, the proportion between constitutions that contain preambles and those who does not, is indicator of popularity of this method of the beginning of constitutional texts. Taking into account the current situation, there is noticeable general tendency towards existence of preambles, including the exceptions that do not jeopardize the acquisition of general conclusion. In addition, thanks to the operational efficiency of the use of the available material on the Google search engine, all positive legal texts are readily available ([www.constituteproject.org](http://www.constituteproject.org)). Around thirty constitutionalists of the total number (194) opted not to enrich their texts with specific preamble. Of course, this information is accurate in the extent that is not relativized by the dynamism of constitutional changes, because it can mean different nomotechnical approaches of constitutionalists. Thus, for example, the preamble in their constitutions has Sweden, Netherlands, Mexico, Uruguay, El Salvador, Denmark, Oman, Yemen etc. the significance of the preamble does not jeopardize a data about very small number of the constitutions which preambles highlight only certain technical details, such as various forms of the constitutionalists.

On the other hand, the preambles of the constitutions of the constitutional states become “text-event” (Häberle, 2000, p. 50), command attention on several grounds, both in the formal-technical and linguistic terms, and regarding to the inner content. We will this textual-legal emergence treat under auspices of the law. However, that view will be enriching with the knowledge of the economic issues that are object of the preambles.

On this occasion, the first impression that arises after the analysis of the preambles of the positive legal constitutions is a little different compared to the current position of the economic issues within the normative parts of the constitutional texts. Except in the preambles, modest presence of economic values, problems and categories can be recorded in the normative framework of the constitution (Purić, Djordjević, 2014). Economic values in many different ways occupy a position in the legal and normative framework. When it comes to the constitution as a highest legal act, we notice that there is a couple of level positioning of economic values and categories. Economic arrangement, as an integral part of the general social order, is indispensable ingredient

of constitutional norms. In the constitutional academic literature is enough emphasized specific way of the constitutional regulation of economic matters, so, there is no need for repeating. It is sufficient to point out that the economic rights and freedoms belong to the overall corpus of human rights and freedoms. For the introductory remarks and methodological approach to the central theme in this paper, it is less important to say that economic rights and freedoms often appear as an inseparable part of the socio-economic rights and freedoms. In fact, it became customary and standard style of constitutional language that economic rights and freedoms do not occupy an autonomous position in the classification system of human rights, but are primarily associated segment of wider thematic unit – the socio-economic rights and freedoms. Probably in line with the general orientations that economic issues are less widespread compared to the other parts of social life. Constitutional legal theory follows this state of affairs, within the positive legal solutions. Recent studies on the theme of form and structure of preambles do not deviate from the habit of neglecting indicated economic thesis, which is easy to spot (for example, Vukas, 2013). Therefore, it is advisable to recall the necessity of combining various fields of scientific knowledge, as one of the “clearly defined tendency in the development of modern science” (Hafner, Krstić, 2014, p. 156).

### **The interpretation of the modern constitution’s preambles**

A need to pay special attention to issues from the subject matter covered by the title of paper derives from the fact of development of an interpretation system of constitutional issues. Definitely, we have to treat non-normative part of constitutional text on the specific way, like preamble, in relation to the normative part. Methods of interpretation of the constitution can no longer be understood in a general way, so it is crucial to precisely differentiate them to the specific areas. In the case of the preamble, “their interpretation has to be specific, discover the cultural depth dimension, they have to be distinguished from others, more formal complex norms” (Häberle, 2000, p. 83). However, the proces of understanding the preamble, in the sense of „cultural depth dimension“, submits new requirements for the distinction in the interpretation, which is consequence of the peculiarities of certain ideas that belong to the preamble. Such diferencies we can observe in the occasion of economic ideas in relation to those that we could call political, like history, nation, tradition, human rights, rule of law, democracy etc. In relation to all marked ideas, a history has a signifacant place, which is suggested often in the academic literature (Bačić, 2013). On the other hand, with a great amount of highlighting of “historical beliefs”, we should be especially careful, because “their influence can prevent us to face with daily tasks of social life” (Popper, 1993, p. 27). In addition, of course, we are aware of the uniqueness of social life, which brings together the totality of many different segments of the social relations, facts and forces, functions and mechanisms. Without insisting on the dualism of economics and law, experience of constitutionlist’s expresion of attitudes regarding to basic social values, however, points out to the particularity of the position of the economy in the texts of the preambles.

Note that has to be emphasized concerns the conceptual understanding of constitutional letters style, especially when we are on the specific field, such as preambles. Corpus of human rights and freedoms is almost universal and „favorite“ place of the

constitutionalists. According to the principle of the abstracted linguistic skills, appropriate to the purpose of the preamble, under the legal-political expressions of human rights and freedoms, we should bear in the mind the group of economic, respectively, socio-economic rights and freedoms. This fact brings us to the general conclusion about the participation of economic values whenever evasive formulas indicate human rights and freedoms in the language of the constitution. So, when economic values are not explicitly allocated with its specific language positioning, always when we are faced with the term of human rights and freedoms have to imply them hypothetically. Similarly, when this term is even more qualified legally, ie, when there is indicated international legal documentation, which regulate human rights and freedoms, it is acceptable to have in mind the relevant international legal acts that regulate economic values. Along with this clarification, it is necessary to draw attention to the different possibilities of understanding of some basic and essential rights and freedoms. Thus, for example, taught with the experiential messages of application of human rights, it can be emphasized human dignity, where we could always ask for the role of economic sphere of human society in a structural understanding of the concept of human dignity.

Previous hermeneutic notes about understanding a meaning of certain statement from the preamble's texts in the context of the considered economic values, aims to convince us in their indispensable presence within constitutional preambles. But, on the other hand, it is research interest to determine the quality and extent of the special recording of economic values observed in the constitutional texts. Here we can find an autonomy due to the orientation that constitutionalists who estimated a need for particular emphasis and indication of certain economic values. Thereby, constitution-makers admit that the flat of their views on the present and future has to enrich with economy, putting it in a parallel with the political, cultural, ethnic and social vision of community that is constituted by the constitution.

However, the recent studies confirm our superior starting attitude on the restrictive position of economic values within constitutionalists' orientations, which they show through the preambles as a means of the expressing their own ideas. Thus, for example, among the typical values in the preambles they emphasize “the sovereignty, independence, integrity, democracy, rule of the law, social justice, freedom, equality and human rights” (Kultešić, 2010, p. 72). Of course, such situation does not prevent analysis of the preamble in which they can identify the economic values and categories, in addition to the typical. For this purpose, it will not be discussed preambles, which we tend to call “technical”, because their texts are not burdened by different social values, but certain technical details (for example: the bringer of the constitution). Quite expectedly, leaving aside the preamble in which we cannot register economic values. Such are, for example, preambles of the constitutions of Albania, Andorra, Argentina, Armenia, Bahamas, Bahrain, Belarus, Benin, Bhutan etc ([www.constituteproject.org](http://www.constituteproject.org)). Finally, preambles suitable for the analysis are preambles where we could discover certain parts of the economic themes, which is between 50 and 60 in relation to the total number of the 194 modern constitutions. These are, for example, the preamble of the constitutions of the Afghanistan, Algeria, Bangladesh, Barbados, Bosnia and Herzegovina, Cameroon, China, Sri Lanka, Spain, Slovakia, South Korea, Papua New Guinea, Pakistan, Nicaragua, Nepal, Namibia, Morocco, Madagascar, Macedonia, Cuba, Colombia, Iran, India, Honduras etc ([www.constituteproject.org](http://www.constituteproject.org)). Among them, may be encountered

in the specific preambles' statements, which contains a catalog of fundamental human rights and freedoms with a normative type of linguistic expression, as is the case in the preamble of the Constitution of Cameroon.

## **The economic content of the constitutional preambles**

Acceptable Häberle's general argument that the constitutionalists entries “that part of the fruitful tension between desire and reality in the constitution” (Häberle, 2000, p. 186), with equal importance can also refer to the considered position of economic categories in the preambles of constitutional texts. Namely, the starting center of gravity on which the most legal scholars base previously specified position, is located in the sector of human rights and freedoms, and others, primarily, political values. In addition, as per an acquired habit, one can overlooks that in the structure of depth of the collective consciousness of a community that expresses the power of the constitution of the state, is present intimately experiencing of economic condition of common life. The identification of this experience is difficult, due to the strength of the public argumentation about other values, such as nationality, faith, religion, politics, traditions, etc. The present situation is obviously the result of previous human experience about understanding of social life; in this experience is leading the importance of political values. Nevertheless, it is necessary to bear in mind a theoretical attitude of social life, which is always necessarily regulated in such a way set by people, and it makes a unity where we could always find – according to the specific actions by the individual members of the legal community – both moments, economic and political activity that in the mutual correlation could be distinguished (Štamler, 2001, p. 279). Certainly, in the opening constitutional textualisation of the most relevant values, could be registered the separation political from economic phenomenon, whereby those first occupy a dominant position. However, with careful analysis of the positive legal texts of the preambles, of the individual's state constitutions, we can derive a few conclusions.

On the first place, it is prevalent impression that economic issues are not significant subject of the expression of the constitutionalists within preambles. This is supported by the fact that, roughly, more than half of the existing preambles in the modern constitutions do not contain a commitment of the constitutionalists to the economic issues, categories and values.

Second, in the preamble's texts, which creators decided to incorporate economic issues, it seems to be in a more modest way in relation to the preponderance of issues from the political spheres of social life. And it, on the one hand in the view of restrictions of the text devoted to the economy, and on the other hand, in a terms of the stylistic expression, which takes a character of less “lofty goals”, primarily focused in the relation to the political issues. However, regardless on the discernible modesty of constitutionalists in relation to the economic parts of the preambles, it seems that they still have an awareness that their futuristic projections prevent “forced realization of economic processes” (Bataveljić, 2012, p. 228).

When we talking about these preambles, we can extract the following economic categories that constitution-makers consider particularly important, so they stand out and emphasize them, by placing in the “pre-textual space”:

- strengthening economic institutions (Afghanistan), economic development (Algeria, Bosnia and Herzegovina, China, Slovakia etc) and economic prosperity (Barbados, Bosnia and Herzegovina, Macedonia etc);
- economic order as an integral part of the social order, which exists in the parallel with the political order (China, Colombia, Zambia etc); market issues, commitment to the market economy, free market (Bosnia and Herzegovina, Angola etc);
- the importance of the economics for other values in the society (the functioning of the economic system in the function of common good (Dominica, Barbados, Belize etc), individual freedoms depend from the economy (Sri Lanka);
- Economy as the basis of relations with other countries in terms of economic exchanges with other countries, economic integrations and economic freedoms of the states. This is an example of the constitutional preamble of Burkina Faso in relation to integration within the framework of Africa, or the constitutional preamble of Colombia in relation to Latin America. Framers of the constitution of Haiti, however, express commitment to strive towards economic free nation;
- Particularly notable are the constitutionalists' attitudes about different experiences of economic justice: the elimination of the economic privilege, economic equality, fair economic order, fair distribution of the earned revenues, and economic reward for the work. A value category of economic justice in various textual formulations may be seen in the preambles of, for example, Spain, Pakistan, Belize, the Solomon Islands, Papua New Guinea, and Nicaragua.

Of course, freedom of constitutionalists' actions during the defining of the contents these types of their texts are sufficiently imminent and it is very hard to establish appropriate standards. What we can do is to recognize a dominance of certain economic issues, which constitutionalists incorporate in the texts of the preambles. Because, thus we simultaneously acquire a special view on the significant economic values that have taken place especially in the constitutionalists' visions about perspectives of development of social communities, constituted by constitutions. Pursuant non-normative essentiality of the preamble, a constitutionalist sets sum of ideas in it, which are, by his opinion, the most relevant for the survival of the community embodied in the form of the established states. With respect to such preambles, in their texts we can essentially reveal a specific dimension of oscillatory message, which is carried by moral norms, aiming high targets, with a refusal to punch an ethical minimum. That is why ethical freedom of the creators of the constitutions have a much wider scope, when they are on the field of the preambles in relation to space of classical, binding legal norms. Respecting the freedom of the constitutionalists during the creation constitutional provisions, the treatment of individual preamble's texts will be always connected with certain specifics of the objective social circumstances in which constitution are designed. In that moment, the constitution-makers can act suprarationally, i.e., irrationally, just as they do when people autonomously determine their priorities for moral behavior (Pečećin, 2014, p. 34). For these reasons, our consideration of potential standardization certain solutions of the application of economic categories in preambles are the result of

the individual experiences connected and gathered at the global level. It is very difficult, at the first glance, to establish common denominators that would be generally applicable to all constitutional orders in the presence of the economic issues in the analyzed texts. Therefore, as a concluding results appear sublime performances based on the gathering of the, so-called, common denominators in the preambles of the various individual states. At the same time, we are aware of axiomatic Smith's attitude, which we keep in mind due to the social literature, that “every system of positive law can be evaluated as more or less imperfect attempt of realization of a system of a science of natural justice or attempt of enumeration of specific principles of justice” (Jelić, 2010, p. 659).

Our attention is attracted by economic justice, as one of the major constitution definitions toward this ideological value. It is essential to ask whether the result of the justice can be compatible with economic values, if we from the conceptual understanding of justice excommunicate its economic dimension. However, treatment of justice is a very complex mental activity, because the concept is content-rich and multifaceted, which is the reason more in supporting the necessity of additional intellectual caution. Along with the transformation of organized society in the form of modern state, flowed the process of transformation of human consciousness about dominant perception of justice. “Justice as fairness seems to require us to aim directly to satisfy principles even when doing so consistently guarantees failure” (Brennan, 2007, p. 297). It seems that it is in the modern state, in fact, a flash reconvalescence ancient Greek idea about the necessity of being perceived through the formula of equitable distribution of goods in relation between individuals, and also in the organized community with organized way of life. Of course, it is true that modern social thought devoted to justice placed through the wide array of different directions, but we will not deal with its presentation, because we need to focus on the central theme of this paper. It is notable that the problem of economic justice in the minds of the constitutionalists is experiencing through the several conceptual directions, which are almost always based on the idea of equality, as gravity and universally valid principle, which establishes understanding of the purpose of social relations. Therefore, a wide spectrum of different sub-themes belongs to the framework of economic justice in the treated preambles, such as economic equality, fair economic order, economic reward for the work, the fair distribution of earned revenues, the elimination of economic privileges. All these ideas that are scattered throughout various preambles' parts of constitutional texts of individual states are connected on the level of the general understanding of justice, in the sense of the ancient Greek concept of justice as equitable distribution of totality of common goods, produced within community. This, long-standing Aristotle's conception of justice, is still not overcome, so, under his thoughts can fall attitudes of the contemporary constitutionalists on their understanding of economic justice.

## Conclusion

After the completion of the research analysis of the described problem, we can draw some basic conclusions. Among them, special attention should be paid to the fact of insufficient interest among actors in the field of legal science to devote more attention to dealing with the problem of mutual interpenetration of legal and economic problem. There

is no doubt that one of these positive legal positions is a problem shown in this paper. On the other hand, it seems to be necessary to encourage laborers of the economic thought to explore these issues. As Hayek pointed out: „there is almost no problem that cannot be adequately answered on the basis of only one specialized discipline...“, because, “an economist who is only an economist cannot be a good economist“ (Stojanović, 2006, p. 170).

Besides the necessary encouragement to the multidisciplinary nature in order to obtain objective performance of the treated phenomena, we could acquire the requirements for advanced reasoning. In relation to the dominant models of the constitutional preambles and their criteria, it is reasonable to establish additional criteria, from the standpoint of position economic value, categories and questions within the preamble’s text statements. Of course, like all other classifications, in this case, the methodological purpose is two-fold: the first one is to get transparent representation of the position of the indicated issues in constitutional preambles of modern states; the second one understands the essential features of the preamble in order to define a nature of concrete preamble in the constitution of each modern state. Along with the acquisition of the image of the inner preamble content, we could find another image – an image about constitutionalist’s orientation in relation to the key issues of social life in the community, which is constituted by constitution in the form of the state. That will be particularly important and foundational issues, without whose identification there is neither constituted community. Summing up the results of the research, it is evident that the constitution-makers believe that the economic value and categories are less important in relation to the problem of history, politics, tradition, culture, human rights, symbols... However, it is necessary to emphasize the fact that about a quarter of the total number of contemporary constitutionalists did not miss an opportunity of recording economic issues, which are incorporated in the text of constitutional preambles. This fact seems sufficiently stimulating to be a subject of the relevant scientific research, so it would be expedient that legal and economic sciences devote more attention, in the separate and in the joint research efforts.

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## ANALYSIS FINANCIAL BALANCE AS BASE MANAGEMENT COMPANY

### Abstract

*The financial position is determined by the state of financial balance, indebtedness, solvency, maintaining the real value of the capital and reproductive capacity. The company has a good financial position if financial balance ensures the safety of the maintenance of liquidity, if the debt provides full independence the company and good safety of its creditors. The financial balance assumes that the assets, which cannot be paid, by volume and time correspond to the scope and time to availability of the funding. Therefore, the analysis of financial balance is reduced to the analysis of short-term financial equilibrium and analysis of long-term financial balance. Analysis of the short-term and long-term financial balance refers to the balance sheet. Analysis of the short-term and long-term financial equilibrium requires that the official (prescribed) balance sheet analysis is adjusted to the analysis of short-term and long-term financial balance. The analysis of financial balance assesses liquidity and requirements for liquidity, which is, in fact, assess the financial situation in the narrow sense. Assessment of the financial situation in the broader sense requires the analysis of debt. Short-term financial equilibrium is determined by the ratio of liquid assets and short-term limited assets, on the one hand and short-term liabilities on the other.*

**Keywords:** *analysis of financial results, analysis of financial position, financial balance, liquidity, balance sheet*

**JEL Classification:** M41

## АНАЛИЗА ФИНАНСИЈСКЕ РАВНОТЕЖЕ КАО ОСНОВЕ УПРАВЉАЊА КОМПАНИЈОМ

### Апстракт

*Финансијски положај је одређен стањем финансијске равнотеже, задужености, солвентности, одржавањем реалне вредности сопственог капитала и репродукционом способношћу. Дobar је финансијски положај предузећа ако финансијска равнотежа обезбеђује сигурност одржавању ликвидности, ако је задуженост таква да обезбеђује пуну независност*

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*предузећа и добру сигурност његових поверилаца. Под финансијском равнотежом подразумева се да средства по обиму и времену за које (неуновчљива) одговарају обиму и времену расположивости извора финансирања. Због тога се анализа финансијске равнотеже своди на анализу краткорочне финансијске равнотеже и анализу дугорочне финансијске равнотеже. Анализа краткорочне и дугорочне финансијске равнотеже односи се на биланс стања. Анализа краткорочне и дугорочне финансијске равнотеже захтева да се официјелни (прописани) биланс стања прилагоди анализи краткорочне и дугорочне финансијске равнотеже. Анализом финансијске равнотеже оцењује се ликвидност и услови за одржавање ликвидности, што представља, у ствари оцену финансијске ситуације у ужем смислу. Оцена финансијске ситуације у ширем смислу захтева и анализу задужености. Краткорочна финансијска равнотежа се утврђује односом ликвидних и краткорочно везаних средстава, с једне, и краткорочних обавеза, с друге стране.*

**Кључне речи:** *анализа финансијских резултата, анализа финансијског положаја, финансијска равнотежа, ликвидност, биланс стања.*

## Introduction

Financial position is determined by the state of financial balance, indebtedness, solvency, maintaining the real value of the equity and reproductive ability. We should distinguish between good, acceptable and bad financial position.

Good financial position of the company if the financial balance ensures the safety maintenance of liquidity, if the debt is such that ensures full independence of enterprises and good security of its creditors. If the solvent, if a company with a stable monetary unit of the financial results of significantly increasing its own capital, in terms of inflation and the effect of the revaluation of financial results increases the real value of the equity if the company is financed from own resources simple and expanded reproduction part.

Acceptable to the Company's financial position if the financial balance to maintain liquidity (without security) if the debt is such that the company provides a relative independence and relative safety of its creditors. If the solvent, if the conditions of a stable monetary unit moderately increased equity in terms of inflation and the effect of the revaluation of financial results maintain the real value of the equity if the company from its own funds financed simple reproduction.

Poor financial position of companies if the financial balance does not provide liquidity if the debt does not ensure independence of the company and the security of its creditors. If solvency is critical, if the stable monetary unit does not increase the financial result, equity, and in terms of inflation and the effect of the revaluation of financial results do not maintain the real value of the equity if the company from its own funds can not finance the simple reproduction.

Since financial position are determined by multiple factors, in real life, they can be inconsistent, one good the other bad, which makes a final assessment of the financial position. The problem facilitates comparison of time and spatial comparisons, comparisons with competitors.

This is because of time allows comparison of the insight of financial position and space allows comparison of the price of the financial position of the company in

relation to the financial position of the competition, which makes it a reliable basis for conclusions about the prospects of the company in the development and survival due to the differences between its financial position and financial position competition.

Of course, there is the problem of choice of comparative companies; this may be the best competitive firm or any competitive companies in the country, and all the company of the same profession or occupation, which has been discussed in the analysis of financial results.

Since the analysis of the financial results of any river on the profitability of this chapter, it shall not be considered separately except in so far as it affects the debt, maintain the real value of the equity and reproductive ability.

## 1. Balance of Financial Results

### 1.1. Term Financial Balance

Financial condition or financial situation is actually the structure of assets and sources of funding that are derived from relationships, relationships by means of attachment within and sources of funding after the deadline *raspoloživnosti* (financial balance) and the relationship of their own and borrowed funds financing (debt). (Rodić, 1991) Therefore, it is necessary to assess the financial condition and rentability. (Krasulja, 1973)

The financial balance implies that agents in scope and time for which (irredeemable) correspond to the scope and timing of availability of financing sources. Since the time of attachment means is not equal for all assets or the time of availability of financing sources is equal for all sources of funding, this means that there are a number of equations that show these financial balance.

Precisely, there are as many equations as there are various time intervals in which certain types of assets related or how many different time periods in which certain types of funding sources available.

It is obvious that the breakdown of the balance sheet on a series of equations, in order to determine whether in all the equations there is equality between the left and right sides, which would mean that there is a financial balance, or left and right sides are not equal, which means that there is no financial balance, it is irrational. Therefore, the analysis of financial balance is reduced to the analysis of short-term financial equilibrium and analysis of long-term financial balance.

Practically, the two equations financial balance: short-term, where the left-hand side consists of liquid and short-term assets related to a right includes payment obligations and liabilities maturing in the short term and long term financial equilibrium where the left side includes funds that are long term and the related right party-going and long-term financing.

Mentioned two equations were derived from funding rules. Equation short-term financial equilibrium corresponds to a rule that requires financing to the ratio of cash, securities which are quoted on the stock market and short-term claims on short-term obligations is 1: 1. It requires equality of the sum of short-term receivables, short-term securities and cash companies with short-term funding sources. (Karavidić, 2013) Long-term financial equilibrium equations corresponding to the golden balance rule in the wider sense, which requires long-linked funds are equal to permanent and long-term sources of funding. (Bojović, 2008)

Control ratio of cash, securities and short term receivables and short-term liabilities is the control of liquidity and control relationships regarding the long-term assets and

long-term and long-term sources of funding represents the control requirements to maintain liquidity. In fact, if there is a short-term financial equilibrium there must be a long-term financial balance. In such circumstances, the long-term financial equilibrium conditions provides liquidity to long-term maintenance, because there is parallelism between the long-fund and terms of availability (duration) of their funding sources.

Whether the liquidity really is permanent and maintained it no longer depends on the long-term financial balance from the parallel terms of mobilization of resources and related short-term maturities of short-term liabilities.

If you are related to long-term funds of less than durable, and long-term sources of funding, in terms of long-term funding, and created a security for the permanent maintenance liquidity because, in this case, equal to the difference between permanent and long-term sources of financing and associated long-term assets related to short-term funding of permanent and long-term sources of funding. If in these conditions existed parallelism between the short periods of mobilization-related assets and liabilities maturities short-term difference between permanent and long term financing and long-fund would be always in the form of cash and just the funding assurances for maintenance of permanent liquidity.

Namely, if for any reason fails to mobilize short-term assets related to the time of maturity of short-term obligations outstanding liabilities will be paid from the funds originating from the difference between permanent and long-term sources of financing and associated long-term funds.

Finally, if you are related to long-term asset is greater than the permanent and long-term sources of funding, in terms of long-term financing, there are no requirements to maintain liquidity, as long-term assets related to the amount of the difference between the long-fund and permanent and long-term sources of funding, financed from short-term sources financing, which means that there is no parallelism between the terms of mobilization of resources and maturities of liabilities. (Krasulja, Ivanišević, 2005) However, in this case, in exceptional circumstances, liquidity can be maintained.

Liquidity in this case can be maintained provided that the mobilization of the short-fund performs faster than maturing short-term obligations. To accelerate the mobilization of the short-fund would have to be such that the mobilized funds always correspond to the short-term due obligation. From the above it can be concluded that the long-term and short-term financial balance of mutually dependent.

Their mutual dependence and can graphically illustrate:

ASSETS	LIABILITIES
SRF	SFS
LRF	LFS

**Figure 1.**

Figure 1. shows the financial balance in the long term in the area of short-term financing. It clearly states that the existence of a financial balance automatically means that there is another financial balance. According to this picture, from the standpoint of long-term funding requirements for the maintenance of liquidity there.

ASSETS	LIABILITIES
SRF	SFS
LRF	LFS

**Figure 2.**

Figure 2. shows that permanent and long-term sources of funding in excess of related long-term assets and are automatically and short-term funding sources is less than the short-term liquidity and related resources. The difference between permanent and long-term sources of financing and associated long-term assets (shown shaded part) is used to finance short-term assets and is related to safety in the maintenance of liquidity.

ASSETS	LIABILITIES
SRF	SFS
LRF	LFS

**Figure 3.**

Figure 3. shows that the long-term related asset is greater than the permanent and long-term sources of funding and are automatically and short-term sources of funding in excess of short-term liquidity and related resources. The difference between long-term funds and related long-term and long-term funding sources (shown shaded part) financed from short-term sources of funding, and it just endangering liquidity.

Meaning of symbols:

- **SRF** = related to short-term funds and cash
- **LRF** = related to long-term funds
- **SFS** = short-term funding sources
- **LFS** = permanent and long-term sources of funding

In accordance with the above, the analysis of financial balance is assessed and liquidity requirements for liquidity, which represents, in fact, the assessment of the financial situation in the narrow sense. Assessment of the financial situation in a broader sense, requires the analysis of debt, which will be discussed later.

## 1.2. Analysis of Short-term and Long-term Financial Balance

Analysis of the short-term and long-term financial balance refers to the balance sheet. Analysis of the short-term and long-term financial equilibrium requires that the official (prescribed) balance sheet adjust the analysis of short-term and long-term financial balance. For financial analysis of the company's most important indicator of overall liquidity, because it shows how much working capital is covered every penny short-term liabilities. (Karavidić., Kvrđić, Ivković, 2013)

This means that the asset side must be delimited by means of attachment within the two groups:

- The liquid and short-term and long-term assets related to related resources:
- And on the liabilities funding sources must also be delimited by time availability - short-term financing of elections and permanent and long-term sources of funding.

These accruals in accrued liabilities, reserves, retained earnings for the year and securities caused some problems. When prepayments, the question arises whether these long-term or short-term related resources. The answer to this question depends on the content (structure) prepayments.

Part of prepayments relating to prepaid expenses equated with inventory. Namely, that these costs are recorded at cost, they would immediately be under the stock unfinished production, semi-finished and finished products.

Because they are, in fact, refer to future accounting periods, they will be more than accounted for the costs charged to the benefit accruals would return to the stock.

In contrast, part prepayments relating to advance short-term accrued revenues are tied funds. This is because it will be the moment the conditions are met for billing, that part prepayments indirectly transformed into receivables or debtors, posting invoices to the customer and benefit accruals and then close the active and accruals for invoiced part. (Ranković, 1998)

In accruals meet with accrued costs and deferred revenue for future accounting periods. Accrued expenses are, in fact, included in the inventory of unfinished production, semi-finished and finished products, which means that they are essentially proofread these inventories to the lower.

In contrast, deferred revenue will be in the next accounting period will be taken to income in the income statement, which suggests that it is a short-term source of funding. Finally, we should mention that, active and accruals, in conditions when applied to a system of calculation of revenues invoiced realization and when to carry out long-term provisions, and both are now applied in our system balancing, part of total assets of the business assets, the rule, negligibly low percentage, so it follows that their impact on short-term or long-term financial balance quite negligible.

In the area of inventories distinguish permanent and seasonal (temporary) stocks, in companies with seasonal production or sales. Standing stocks belong to the related long-term assets, as the company financial statement ever present since the conditional use of the capacity and performance of the manufacturing process and sold without restrictions and interruptions.

In contrast, seasonal supplies are short-term assets related, occur only during the season, which is still less than a year. Separation of balancing inventory to permanent and seasonal can be done in several ways:

The first way to refer to it if the balance is made at the time when there was a season of Prosperous stocks and do not include seasonal inventory, which means that the Prosperous stocks flat constant inventory. In circumstances where the balance constitutes season Prosperous stocks unquestionably include permanent and seasonal supplies; to separate them. It is possible for a permanent pipeline to take stock of one month when they were the lowest, with the proviso that in the month of off-season conditions in the company was a normal volume of production and sales.

Another way is to take stock of the constant average inventory. This method of determining the fixed stock is unsuitable because, in terms of a stable monetary unit of average inventory is always more than a fixed stock, which means that the permanent stocks were overvalued, in terms of inflation average inventory can be both higher and lower than the fixed stock.

The third way is to get a permanent pipeline quantify non-bookkeeping. The difference between bilansiranih stock and fixed stock, quantified in one of the above ways is a seasonal supplies that are treated as short-term assets related. Of course, with nesezonskih companies that have a continuous process of production and sale of Prosperous stock is equal to the permanent inventory.

When retained earnings for the year, the question arises whether it is short-term or long-term source of funding. The answer depends on what comprises retained earnings - if it includes taxes and contributions from finansijskog result is undeniable that most of the short-term source of funding for the taxes and fees in the short term reach for payment; if you do not include taxes and contributions from the financial results, the question that DCO will be paid to the owners of capital and when it will be done the payment, and that part will be accumulated in equity. Since there is a lot of unknowns in the analysis of financial balance undistributed earnings, as a rule, be treated as a permanent source of funding.

In the area of securities luck securities maturing in the short term, these securities are undoubtedly related short-term funds, but happiness and securities maturing inventory charge in the long run.

Securities maturing in the long run and can, if necessary, to sell the securities market, which means that the listed entities should, also, include in the short term related assets, because they are, in case you need cash, most likely to sell. Securities maturing in the long term and are not quoted on the stock exchange should, of course, included in long-term assets related.

Balance sheet, the company observed, prepared for the analysis of short-term and long-term financial equilibrium in which the order of positions in the assets carried on the principle of declining liquidity and liabilities based on the principle of growing maturity is shown on the next page.

Analysis of short-term financial balance. Short-term financial equilibrium is determined by the ratio of liquid assets and short-term connected, on the one hand and short-term liabilities on the other.

In this regard from the balance sheet of the business assets allocated to the following positions

	Previous		Current		Share of Total assets Of the Business Assets
	Amount	Share of Total assets Of the Business Assets	Amount	Share of Total assets Of the Business Assets	
1. Cash		15, 0	171.192	40, 8	
2. Customers and other receivables	5, 4				
3. Short-term investments		18, 5	978.897	10, 2	
4 Active accruals	30. 7				
5. Liquids and related to short-term Fund (from 1 to 4)	713.399	47. 0	1.300.267	40, 8	
6. Suppliers and other obligations from the operating	688.903	42, 3	1.064.262	33, 3	
7. Short-term loans	25.132	1, 5	325.644	10, 2	
8. Passive accruals	64	-	8	-	
9. Short-term funding sources (from 6 to 8)	713.399		1.389.914	43, 5	

000 dinar



Recall. Short-term financial equilibrium exists if the liquid assets and short-term assets related to the same short-term funding sources, or if their relationship is 1: 1. corresponding rule of financing (acid-test) 1: 1.

Regarding the company had a ratio of liquid assets and related short-term and short-term sources of finance:

	Liquid assets and short-term connected	Short-term funding sources
- current year	1	1,069
- previous year	1	0,935

The current short-term financial equilibrium is shifted to the short-term funding sources, the 100 dinar liquidity and short-term assets related waste 106.9 dinars short-term obligations. Which means that the company can maintain liquidity unless he related to short-term funds mobilišc before maturing short-term obligations. Which means that the short-term related resources related to shorter terms than the terms of availability of short-term liabilities;. On average limits the availability of short-term obligations in order to maintain liquidity in this case would have to be longer than the short periods of attachment-related assets by 6.9% = (106.9-100).

In the previous year it was the other way around, short-term financial equilibrium is shifted towards the short-term liquidity and related means, for every 100 dinars liquid assets accounted for 93.5 dinars short-term liabilities, which means that the company can maintain liquidity provided that the terms related assets on average not more than limits the availability of short-term liabilities from 6.5% = (100-93.5). With such a short-term financial equilibrium creates a condition for security in maintaining the liquidity provided that the average short-term periods of attachment-related assets corresponding to the average terms of availability of short-term liabilities.

In such circumstances, the company would have a liquidity reserve of 49 389 thousand (762 788 -713 399). that would be iskonšecna for payment at a time when short-term mobilization of related assets, for whatever reason, would not be the same due short-term liabilities

Observed data indisputably to the conclusion that the company's liquidity in the current compared to the previous year worsened, and see how the competition. The competition at 100 dinars liquid and short-term assets related waste short-term liabilities for the current and previous RSD 119.1 124.5 thousand. In both years, therefore, the competition had shifted the balance toward short-term financial resources and far more than is the case for companies in the current year: the other differs in that short-term financial balance of the current compared to the previous year, with the company indicating the direction of deterioration and the competition ispostvlja the direction of improvement. However, despite the company jc in a better position in terms of liquidity than the competition.

## Conclusion

When analyzing financial results shall be spatial and temporal comparison. Temporal comparison showing the development, promotion companies in achieving financial results. Of course, if the comparison includes more consecutive periods so much more clearly observed tendency of achieving financial results and vice versa, and

how many consecutive years to analyze financial results and time and time comparisons depends on the objective analysis.

Analysis of the structure of total revenue shows based on what and how much has been achieved revenue and total revenue schedule shows his load certain types of expenditures and the share of the financial result in the total income.

Analysis of financial balance is assessed and liquidity requirements for liquidity, which represents, in fact, the assessment of the financial situation in the narrow sense.

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## NEW EDUCATION POLICY'S PRIORITIES AS A FUNCTION OF ECONOMIC DEVELOPMENT OF SERBIA<sup>3</sup>

### Abstract

*The subject of the analysis is the importance of new education policy of Republic of Serbia, as one of the key factors for economic development, whose dynamics depends on the degree of its realization and capacity of state to implement New Strategy for development of education in Serbia until 2020 (Law on government RS, 2005). In long term, the biggest importances in the process have investments into human capital and education, and research and development. The goal of the paper is to demonstrate that New Strategy for development of education in Serbia until 2020. has responded to requests that educational system should correspond to needs of the economy, to establish active institutional system of linking between science and industry; and that policy of incentives should be focused towards innovation in entrepreneurial sector. The paper starts with hypothesis that level of development of the economy depends on the results of conducted reform in education system, as well as that education system of Republic of Serbia, whose standards lag behind the outstanding legislation standards of European Union, does not satisfy immediate needs of the current economic structure. Defined hypothesis is confirmed in the paper, by the use of comparative legislation analysis of educational policy in European countries and surrounding countries. Basic message of the paper is that establishment of economic development of Republic of Serbia in post-crisis period is closely linked to implementation of education policy whose priorities are given in the New Strategy for educational development in Serbia until 2020, because without reform of education system is impossible to implement structural reforms in the economy.*

**Key words:** *education, economic development, Strategy for development of education*

**JEL classification:** K22, K23, I25, I28

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## ПРИОРИТЕТИ НОВЕ ОБРАЗОВНЕ ПОЛИТИКЕ У ФУНКЦИЈИ РАЗВОЈА ПРИВРЕДЕ СРБИЈЕ

### Апстракт

*Предмет анализе је значај нове образовне политике Републике Србије као једног од кључних фактора привредног развоја чија брзина зависи од степена њене реализације и капацитета државе да спроведе Нову Стратегију развоја образовања у Србији до 2020. године (Закон о Влади РС, 2005). Дугорочно гледано, највећи значај у том процесу имају инвестиције у хумани капитал и образовање, истраживање и развој. Циљ рада је да укаже да је Нова Стратегија развоја образовања у Србији до 2020. године одговорила на захтеве да образовни систем буде у складу са потребама привреде, да се успостави активан институционални систем повезивања науке и индустрије; и да се подстицајна политика усмери ка иновацијама у предузетничком сектору. У раду се полази од хипотезе да степен развијености једне привреде зависи од резултата спроведене реформе у образовном систему као и да образовни систем Републике Србије, чији стандарди заостају за важећим стандардима у права Европске уније, не задовољавају ни непосредне потребе садашње привредне структуре. Постављена хипотеза се потврђује у раду уз коришћење упоредноправне анализе образовне политике у европским земљама и земљама из окружења. Основна порука у раду је да успостављање привредног развоја Републике Србије у посткризном периоду, је уско повезано са спровођењем образовне политике чији су приоритети дати у Новој Стратегији развоја образовања у Србији до 2020. године, јер без реформе образовног система немогуће је спровести структурне реформе у привреди.*

**Кључнe речи:** *образовање, развој привреде, Стратегија развоја образовања.*

### Introduction

Mixture between traditional inheritance and history records especially each of existing education systems in the world, although all of them are linked by similarity of goals and role in the society (Lukic, 2003).

No matter the specificity, education systems of countries have the subject of, or better, the goal to have the knowledge which is not divisible, but on the contrary universal and general.

Knowledge as such does neither have limits, nor memberships in international organizations and regional unions.

Such character of knowledge should define education systems towards accessibility, linkages, indivisibility, transparency as well as universality and applicability everywhere and by each member of human community.

Universities are of vital importance for social, cultural and economic development of every country, and freely speaking, entire human society.

Universities are the best in fulfilling tasks of keeping, transferring and improvement of knowledge through education and research, because of their autonomy where there are no political, ideological and corporative influences.

Analysis of the current moment and state of educational systems and educational policies in the world, helps coming to numerous conclusions, as well as dilemmas.

Increase and popularization of higher education led to more funds from private sources, which automatically induced question of availability of tertiary education, and therefore integrity of academic work (Robinson, 2009).

In the last two decades universities in Europe became part of university education market, where due to severe competition, changes occurred. All over the world is present commercialization, privatization of universities in order to provide answers to requests of internationalized market, where education becomes part of international trade agreements.

Members of World trade organizations took over the responsibility within General Agreement on Trade of Services (GATS) to liberalize university education that is to provide access to education market for foreign legal entities and give them adequate legal position according to the principle of fair treatment (Santiago, Tremblay, Basri & Arnal, 2008).

European policy defined clear goal of strengthening the role of universities in achieving goals of Lisbon strategy, where economic development and society were based on knowledge as the basis for European competitiveness.

Creation of education policy is always done within frameworks of existing national and historic circumstances, with defined goal: higher public funding in order to achieve wider social engagement, or privatization of funding of university education in order for individuals to have benefits, that is, decision regarding relationship between state and market towards concept of cost or investment (Turajlic, 2009).

In that relationship which depends from social tendencies and phase where the society is, various implementation models occur (Vukasovic, 2012). In some countries tendencies are such that from the need of unifying legislation and its harmonization, we enter into phase of strong education market liberalization, and latter implementation of various methods of control and surveillance.

Within European Union and its member states, higher scholarships than Serbia, Croatia and Montenegro are paid only in Netherlands, Great Britain and Latvia.

Solution is to find balance between market demands and clearly defined standards, where leading role should be played by authorized state institutions.

## **Legislation framework for the development of university education in Republic of Serbia**

Law on higher education in Republic of Serbia is defined within established limits of education policy and newly defined reform (*Law on higher education*, RS, 2005).

This law defines system of higher education, conditions and manner of performing activities in higher education, funding, as well as other issues important for this activity.

Higher education operations are especially important for Republic of Serbia and they are part of European education, science and art space (*Law on higher education*, Article 2).

Law is based on the principle of academic freedom, autonomy; unity of education and scientific, research and artistic work; openness towards public and citizens; respect

of humanistic and democratic values of national and European tradition and values of cultural heritage; validation of human rights and civil rights and freedom, including prohibition of all kinds of discrimination; coherence with European system of higher education and improvement of academic mobility of teachers and students; participation of students in management and decision making, especially regarding questions important for quality of lectures; equality between institutions for university education no matter of property status, or the founder; affirmation of competition of education and research services in order to increase quality and efficiency of university system; providing quality and efficiency of studies.

Goals of higher education are transferring scientific, experts and artistic knowledge and skills; development of science and improvement of artistic creations; providing scientific, skilled and artistic legacy; giving opportunities to individuals that under the same conditions gather higher education and to be educated throughout their life; significant increase in the number of inhabitants with higher education (Law on higher education, Article 3).

Republic of Serbia is a part of process for creation European university education space (Karavidic, 2005).

The main goal of current Law on higher education is providing legal frame for implementation of Bologna process, and involvement of Serbian institutions in European academic space for higher education.

Readiness for integration is appreciated through coherence between legislation, reform of studies and their completion with adequate financial infrastructure, staff, material and technical support, through the existence of practical training, mobility of students, fundamental corrections of obligatory literature, large number of students with negative influences on teaching staff regarding scientific and research operations (Karavidic, 2006).

According to Law on higher education integrative function of university is related to establishment of unified standards of operations. Integrated university, as organization of faculties, was accepted by all members of European Union, USA, Canada, Japan and New Zealand. Only Serbia as one of rare countries, besides Croatia and Bosnia and Herzegovina does not have integrated university.

The main advantage of integrated university is efficient system of university education, full network, freedom of movement of science, exchange of knowledge. The essence of integrated university is more efficient studying and serious scientific and research work, and not centralized distribution of finances.

Universities should be integrated as multidisciplinary area with numerous functions (Knezevic, 2011).

In transformation of the university big role have institutions themselves which have to recognize that it is the way to provide quality, autonomy and interdisciplinary approach (Stankovic, 2011).

Higher education in Republic of Serbia is such that is must strive towards improvement of teaching, production of qualified graduated students who are demanded workforce on the market, incentives for students' creativity, no matter the fact that our universities are not ranked high on the lists of the best world universities.

## Current state of education in Republic of Serbia

Area of Republic of Serbia, and area of Southeast Europe, is still in the process of transition, which is for many phase of transition towards economic recovery. Serbian economy today faces with reform of public sector, as well as restructuring of large economic systems which continually demonstrated huge losses, and reform of education system.

One important part of reform tasks and reform activities represents area of education.

The goal of the reform should be establishment of more competitive economy and adoption of standards and regulations of European Union legislation.

Lack of information, unclear goals of high education, and not enough attention dedicated to evaluation of outcomes of high education and generally poor economic aspects of high education are characteristics of our country.

Education system in Republic of Serbia is closed, isolated, mainly shaped by short term economic interests, reformed for the short term without considering long term consequences of such changes, which inevitably induce annulment of development mission of education.

Relationship between education and society generally, and more specifically with economy of the country was defined differently depending on wider social circumstances. As the result of process of globalization, changes in education are inevitable, because in the long term education is one of factors of key importance for creation of recovery of transition economy in the country and its faster extraction from the crisis.

Mutual dependence, causality between education and uncompetitive economy, demand detailed consideration of education as the factor of sustainable economic development in the country.

Competitiveness of the economy primarily depends on outcomes of education, in sense of shaping such innovative and creative capacities among individuals who are profiled through education and are enabled for fast adjustment to global technology development trends (Ignjatijevic, Raicevic & Đorđević, 2011).

On the area of entire Southeast Europe and Republic of Serbia's educational policy is not clearly enough focused on creation such human resources.

Lack of reform of education system makes impossible to have structural economic reforms. In order to respond to such requests, thorough reforms are necessary in education, whose standards lag behind European, and do not meet even immediate needs of the existing economic structure.

Education policy of Republic of Serbia does not clearly reflect goals of Lisbon strategy defined for education and training: increased quality and effectiveness, provision accessibility to all, openness for wider public.

Besides, education is not enough supported financially by the state.

In large economies of EU (Germany, France, Great Britain, Italy and Spain) expenditures for education are on average around 5,3% of GDP, but they are much lower from OECD's recommendation of between 6 and 8% of GDP.

For most of SEE countries (Romania, Bulgaria, Serbia, Bosnia and Herzegovina, Croatia, Macedonia, Albania, Montenegro and Moldova) these expenditures are in the interval of 4-5% of GDP, and they are lower than average expenditures in EU-27, and significantly lower than OECD's recommendation of 6-8% of GDP.



This entire area is specific because it is incoherent, due to large differences in education. But, human development index demonstrates that SEE countries are in the group of countries with high human development index.

If we analyze value of one of more important measures which demonstrates level of development of education – expected years of schooling (population over 25 years), we can conclude that Republic of Serbia lags behind more than 2 years, comparing to some neighboring countries.

Basic problems with which is faced existing education policy are nonexistent connection between economy and research institutions, and very small funds and investments into education and training, both on basic level, as well as for education and training of adults. System of continual education is not developed, due to small scientific and research capacities and poor finances.

According to consideration of current status of education in Republic of Serbia and previously analyzed parameters and indicators of structural changes in the economy, it is clear that these were the reasons which created New Strategy for education in Serbian until 2020., which should create basis for enactment of new regulations in the field of education, as well as their further implementation.

Besides, Strategy represents basic strategic instrument for shaping the new education policy in Republic of Serbia, based on European standards and values which demand from us to create integrated university not only on the state level, but further.

Process of harmonization of requests, opposite from tendency to have closed education system in Serbia, demands incorporation into European education space.

### **Expected results from implementation of “New Strategy for development of education in Serbia until 2020.”**

When defining new education policy, the question is, whether policy is fully prepared to cover entire process, which cannot be extracted from social surrounding, with all possible changes (Enders, Jeliazkova & Maasen, 2003).

In the context of public policy, process of creation of education policy can be organized according to generally accepted systematization through phases of: observing the problem, defining the problem, formulation of policy, implementation of policy, evaluation or finishing of the implementation of policy.

Achieving defined goals of one policy depends also on inclusion, or accepting the policy by institutions in the country. Acceptation on both sides leads to relevant justification (Bovens, 2001).

The need of Serbia to be included in European education space, as the response to impossibility to separate and link with nearby countries, focuses education policy on organized and high quality of education system, as the key condition for development of competitive Serbian economy.

Changes in high education and successful implementation of these changes are defined, as terms, through strategy for development of education.

New strategy for development of education in Serbia until 2020., defines purpose, goals, directions, instruments and mechanisms for development of education system in Republic of Serbia during the next ten years. It takes care of the attempt to

shape development of this system in the best manner, known to us (New Strategy for development of education in Serbia until 2020, Article 17).

Goals which should be achieved through implementation of new Strategy in education are: improvement of education system through improvement of its quality and efficiency; harmonization of education system with European tendencies in education; development of education resources at national and local level, internationalization of education with preservation of national and cultural identity.

Education system in Serbia until 2020 should respond to vital and development needs of citizens of Republic of Serbia in the best possible manner, as well as to the needs of entire society, not only through new theoretical understandings, but through gathering knowledge and abilities, development of education procedures and life-long learning.

Better quality of secondary education is guarantor for better human capital and operations which satisfy current needs with creation of new and better jobs.

Efficient education means earlier appearance on labor market.

Final outcome of quality and efficient education is ability to implement knowledge and self-employment, linking education with other systems. PhD studies should be based on researches in order to establish productive interaction between education, research and production.

Larger number of high educated staff enables better satisfying of public needs, pensions and growth of standard of living.

Key factor of sustainable development of more quality education is education of teachers and their professionalization through constant improvement through trainings, seminars and educations.

Such vision of education can be achieved through pluralism of proprietary relationships, adoption of national standards in education, development of resources of education and centralization of education. Education system should be developed in parallel with economy, culture, science, technology development, development of public services, administration, etc.

Education system in Republic of Serbia must become attractive for international cooperation and provision of education services (especially in higher education) in immediate surroundings of Republic of Serbia, in Western Balkans and Southeast Europe.

Integrated higher education (university, vocational academies) ensures uniformity and equality in education, more efficient understanding and solving practical problems, mutual positive and productive interaction of specialized scientific disciplines and sustainability of higher education.

Investment into education together with efficient use of existing resources enables modernization of teaching through opening new laboratories, development of computer network and exchange with foreign countries, quality work space and new scientific research (Lutovac, 2009). Objective accreditation of education institutions ensures healthy competition, and transparency induces strategic relations with other systems.

Quality of education with larger coverage of population is prerequisite for sustainability of environment because communities based on knowledge and understanding that nature must be preserved, protect the nature by the use of pure technologies.

## Conclusion

Development of Republic of Serbia, until 2020 will be focused on reindustrialization, that is revitalization and technology modernization of processing industry, development of several economic activities based on intensive implementation of knowledge and development of industrial information and communication infrastructure.

Such development involves interaction with academic, research and wider education community.

Republic of Serbia today does not have needed qualification structure which satisfies demands of labor market, and the existing system will not be able to satisfy needs of labor market and future development. From these reasons are necessary root changes in education system of Republic of Serbia, whose essence should be in adjusting the system of education in order to satisfy needs of employers and significant decrease of the number of unemployed.

Improvement of education system of Republic of Serbia is possible through constant increase the quality of education system and increase of investments into education, establishing of education system according to thorough general education which provides possibilities to select the area of additional improvement and strengthening links between education institutions, research centers and economy through inducement of cooperation programs.

Such reforms cover new regulatory framework which would have the goal to adjust education profiles with needs of employers; enactment of national framework of qualifications according to needs of labor market in Republic of Serbia; development of clusters which connect private and public sector and cover group of companies, suppliers, services and related institutions (education and research institutions, institutes, faculties, schools).

It is necessary to strengthen institutional cooperation between education institutions and economy, establish new and enforce existing centers for carrier development located on education institutions, councils for reform of schedules of work at education institutions (especially faculties) where would be representatives of entrepreneurs and improve the work of National employment office, to be able to predict the needs of labor market like EU institution CEDEFOP (European Center for development of practical training).

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## INFORMATIONAL RESOURCES MANAGEMENT IN TOURISM

### Abstract

*Every field of people's conscientious act require making corresponding decisions. Since making right and timely decisions requires certain information, that can also be applied for making decisions in tourism business. Tourism is a heterogeneous activity, which create numerous opportunities for general and specific implementation of different information. Therefore, the subject of this paper's analyse is necessary information for making timely and right decisions in the tourism business, as well as the manner of collecting the same. The aim of this paper is to point the importance of information management, as a crucial resource in tourist enterprises, on which depends right and timely making decisions by the management of those enterprises.*

**Key words:** management, information, informational resources, tourism.

**JEL Classification:** L83, D83, M15

## УПРАВЉАЊЕ ИНФОРМАЦИОНИМ РЕСУРСИМА У ТУРИЗМУ

### Апстракт

*Свака област свесног људског деловања захтева доношење одговарајућих одлука. Како су за доношење исправних и благовремених одлука потребне одређене информације, то се исто може рећи и за доношење одлука у обављању туристичке делатности. Туризам је хетерогена делатност, што ствара бројне могућности за општу и специфичну примену различитих информација. Дакле, предмет анализе овог рада су неопходне информације за доношење правовремених и исправних одлука у туристичкој делатности, као и начини прикупљања истих. Циљ овог рада је да укаже на значај управљања информацијама, као битним ресурсом у туристичким предузећима, од кога зависи исправно и благовремено доношење одлука од стране менаџмента тих предузећа.*

**Кључне речи:** управљање, информације, информациони ресурси, туризам.

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## Introduction

Contemporary economy subjects, among which are those from tourism field, do the business in the conditions of intensive changes of business surrounding what requires their adjustment to newly conditions. Dynamism of economic environment on principles of market based business establishes a business philosophy which will be based on requests, not only strategic marketing, but also strategic management. One of the important assumptions for efficient functionality of an enterprise is existing adequate informational system, which will ensure acquiring and data analyse, their translation into information and their presentation to the users, e.g. management.

In professional literature, especially about the management of informational systems, there is a difference between the terms „*data*“ and „*information*“. Data are usually defined as registered facts referring to individual aspects of functioning studied system. Information is processed data, e.g. data which have specific meaning.

Relation between data and information is treated as well as relation between raw material (input) and final products (output), and data processing (application of certain operations on data) is deemed as a way of information production.

Therefore, information is not just data, but it is obtained by facts analyse and recognizing the message which comes out from data analyse. While data are unvalued messages, information is improved with message on a specific situation, or knowledge used by those who make decisions e.g. managers.

Information affect quality of business decisions which initiate activities, so though it they direct success or failure in company's business. Therefore information is treated as some resource which companies use in accomplishing their mission.

### **Informational base of strategic process of making decisions in tourism**

As reasons for which information will have to become a base of majority of companies can be named the following: (1) is shown in demographic indicators, where educated workers are not the subject to command-and-control methods of the past; (2) is shown in necessity for systematization of innovation and entrepreneurship; (3) is that companies should comply with information technology (Drucker, 1995). Each individual company must decide what information is needed to run a business, because otherwise they will "drawn" in loads of data and information. Information becomes useful for communication in case the receiver adapts and understands it.

The concept of information has more dimensions. "Emphasising the importance of strategic process of making decisions, a lot of authors observe information as "a system of knowledge" or "the base of knowledge", or such information is called "soft". Such information is usually external and relate to future". This kind of information is suitable for descriptive or ideographic presentation. "Conversely, "hard" information can be quantitatively expressed and processed by using different analytical methods" (Radosavljević, 2002, p. 53).

Numerous surveys have shown that "hard" information is not necessary in strategic process of making decisions, but it is significant for business survey of the company

in the previous period of time, can be easily collected, systematised used as a base to foresee the future. The importance of "soft" information and their usage in strategic process of making decisions is widely known, because unstructured issues is very rarely possible to solve just by collecting and analysing "hard" data. The grade of "hard" and "soft" information depend on the type of strategic action and the phase of the strategic process of making decisions (Radosavljević, 2002).

When it is about tourist companies, for strategic positioning of their products and services on the tourist market, especially are important such information on expectancy and tourists' behaviour. Timely information are necessary about the number of tourists, average length of their stay, their purchasing power, affinity to consumption, their educational, sex, age and other structure.

Tourism and other economic activities, are still not sufficiently able to use all advantages of GIS (*Geographic information systems*) technology. Although, GIS (*Geographic information systems*) is present for almost forty years, the most frequent use is recorded in the last ten years. "Geographic information systems, as a rationally organized collection of computer hardware, software, geographic data and users, enable the effective collection, storage, sorting, manipulation, analysis and spatial display of geographic information that are of interest for the user" (Seferović & Stankov, 2009, p. 117).

Before making a decision about the way to gather wanted information, it is necessary to analyse the value of such information. If it is estimated that such information will have a positive effect on business activity of a concrete tourist company, it is necessary to realize the relation between the effects which are achieved by using such information and costs of their collecting.

Each company before the process of collecting data should consider three questions: (1) a possibility of getting required information; (2) expenses of collecting information and (3) contribution of information to more effective process of making decisions (Walters, 1989).

As the level of making decisions is increased, from operative, through tactic to strategic, that's the way the scope of external information is increased, and internal decreased. It is similar with the levels of management at a company. Basic characteristics of information necessary for *operative management* are: intern origin, details, time continuity, high structuralism and accuracy, whereas for *strategic management* needed such information directed to future, unprogrammed, of external character, general, periodical and less precise.

It is essential to point out that abundance of information does not necessarily consider their quality. The quality of information is affected by following their characteristics: relevance, accuracy, usefulness, comprehensiveness, timeliness, credibility etc. By relevance it is consider that information managers get must have relevance for their authority and activities they deal with. Accuracy and information usefulness go together. Useful is that information which leads to successful making decisions. The information meets criteria of accuracy in case managers know how to use it. Credibility of information is improved by planning the approach to survey, as well as usage of services of survey of external institutions. It is necessary to plan the system of information in such a way, so that reports are uniformed, uniquely and concretely presented to users. The quality of information, also depend on their timeliness, because for making adequate business decisions right information is needed, at the right time and the right place.



It has already been pointed out that one of the basic characteristics of strategic process of making decisions is their primarily external orientation, e.g. aim at establishing corresponding relation between company and environment. Due to the fact that marketing, as a business conception and philosophy of economy by its essence externally orientated, therefore its role in the process of strategic management and making decisions makes it especially significant. In addition to that, the task of marketing surveys, in tourist companies, is to provide such information base on needs and wishes of consumers/tourists which will help to realize the decisions of tourist companies in the most appropriate way from the point of view of their mission and long--term business goals.

However, marketing survey should not exist isolated as the only way of data collection. Marketing should, first of all, be considered as a part of systematic and continuous effort of a tourist company to improve its process of making decisions. It is important to point out that marketing survey is significant from the aspect of information contents and the manner of their collection, and company's informational system refers to flow of information management from different sources of data to managers who will use them. "That requires a data base for organizing and information storage and support system for making decisions transferring data into useful information and their deliverance to users" (Aaker, Kumar & Day, 1995, p. 23).

In modern tourism business relation between producers/offers and customers/tourists has fundamentally changed, it is being more and more conducted without mediators, customers' and offers' needs are met in decreased timeframe, costs are reduced etc. "The development of information technologies and Internet has influenced the emergence of digital economy, which is based on development and usage of new organizational models, new products and services, behavior rules, and the new way of business thinking" (Rodić, Mitrović & Mitrović, 2012, p. 447).

All information necessary for tourist company's function should be stored in control information centre for future and present usage, and the control centre itself should be integrated into short-term and long-term planning and company's functioning. Informational system of a tourist company set in this way in most cases is called integral informational system, which is based on integration and gathering all data in data base, as well as integration of communication process with the process of data base and process of making decisions.

Modern tourist business is constantly under the influence of different factors in the business environment. However, most of the activities in tourism enterprises can be significantly facilitated by information and communication technology. "It is important that the management company designate adequate information technology and recognize its impact on the organization and structure of the company" (Muhović & Ćurčić, 2011, p. 173).

Development of marketing survey in direction of marketing informational systems enabled (Hanić, 1996):

- Marketing surveys to orientate on necessities of marketing management for information,
- Collecting external information to be done continuously and
- To organize total informational activities in marketing.

## Marketing informational system (MIS) in tourism

Appropriate obtain of information, necessary for marketing making decisions, requires existence of corresponding system for continuous collecting, analyse and presenting data–information. That makes the essence of marketing informational system, defined as „continuous and intractive structure of people, equipment and procedures with the aim of collecting, classification, analyze, estimation and distribution of adequate, timely and accurate information“ which will be used by those responsible for making decisions in marketing in order to improve marketing of planning, performing and control (Kotler, 1986, p. 86).

Marketing informational system (MIS) fulfills the function within its four sub-systems (Kotler, 1986):

- Intern system of information,
- System of marketing information,
- System of marketing survey and
- Analytical marketing system.

Intern system of information, e.g. intern accountancy system presents data on existing sales, expenses, the flow of ready money, as well on status of debt and company’s liabilities. System of marketing information presents a set of sources and procedures by which marketing sector gets daily information on events in environment. The sources of information can be named: tourist intermediaries, channels of tourist products and services distribution, organizations which professionally deal with surveys etc. Marketing research is systematic way of collecting, analyze and distribution of data and certain knowledge relevant for specific marketing situations a company faces with. Analytical marketing system consists of technics for analyses marketing data and issues. Its integral parts are (base) statistic data bank and patterns bank. Base of statistic data make total statistic data which are necessary in marketing function. Patterns bank consists of modern mathematical patterns used to make adequate and timely decisions.

Informational systems, including MIS, can exist in various forms, depending on their scope and purpose. As phases in informational systems development can be named the following (Popesku, 2002):

- *Data Processing* – collecting basic data and making a report;
- *Management Information Systems* – data processing and providing information which help management in the process of making decisions;
- *Decision Support Systems (DSS)* – interaction with decision makers in their decision-making process;
- *Expert Systems* – use expert knowledge to solve insufficiently structured problems on the basis of connecting to databases;
- *Executive Information Systems* – connect possibilities of *DSS* and expert systems.

The structure of managing informational systems in tourism, both in macro, as well as micro level, must show the nature of process of making decisions. The uniqueness of management in tourism requires a process of making decisions to be considered in relation to the following their dimensions (Popesku, 2002):

- The level of aggregating on which decisions are made,
- Included other economy branches and activities,
- Phase of management process,
- Relation between the level of management and making decisions and
- Functional field of making decisions.

Creating marketing informational system, with an aim of systematic support for the needs of managers in tourism, is a very complex and long-term process. Within that process is almost impossible to expect certain results for relatively short time period.

Marketing informational systems can be developed as "ad hoc" or as completely integrated systems. In the first case, they are developed according to experience, what makes a basic drawback of this approach – number of compromises it is subjected to. Other approach mean strictly planned and integrated system, which is included in the organizational structure of the company and in whose creation are included those for whom information are intended – those who make decisions. Other approach in making marketing informational system is harder, and in its base it is more appropriate, because it involves planned approach and efficiently creation a relation between the system and its users.

As a separate important issue, while creating marketing informational systems in tourist companies, appears their connection with marketing informational system on a macro level. In the mentioned context it is extremely important to point out the reasons which show the necessity of marketing information management and development of marketing information systems of these companies (Hanić, 2001):

- Informational explosion,
- Increasing complexity of jobs and company's environment,
- Company's growth,
- Increase of making decisions' process,
- Application of patterns in marketing management,
- Using the advantage of modern informational technology,
- Increase of information number within time unit,
- Achievement of the same level of content with informational needs with fewer expenses,
- Uniforming the information distributed to various parts of the company into a sensible whole,
- Providing conditions for effective application of marketing conception,
- Faster recognition of trends in company's environment,
- Increase of analytical power and total efficiency of marketing,
- Possibility to make optimal decisions,
- Better control of carrying out marketing plans and actions etc.

The efficiency of marketing management activity of tourist companies is conditioned by the system of communication, or organizing information course. In the system of communication one should make a difference between three basic information courses, such as:

- Input information,
- Intern course of information and
- Output information.

Input information comes from the surrounding in which a company deals with its business activity. In tourist companies these are, first of all, information from tourists, then information from tourist agencies, other intermediaries, competition companies, state organs and institutions etc. Intern course of information is carried out within the company itself. Such information come from different departments at a company, which are obliged to collect information and analyze them connected to marketing. Output information included in messages a company sends to its present and potential customers/ tourists, various institutions, publicity etc.

The success of tourist company's business activity first of all depends on efficiency of its informational system. Marketing department in a tourist company monitors the situation on the tourist market (input information), prepares with other departments at the company to meet the observed requirements of the customers /tourists (intern course of information) and tourist products/services are presented on tourist market about what the company informs the customers of its products /services (output course of information).

Today's dynamic business environment defines the conditions in the direction of creating a high degree of flexibility. Also, we are comforted with changes in the value system of customers and with the need for developing good, long-termed relationships with them. "In these activities, special emphasis should be put on attraction of new customers and maintaining good relation with the existing ones. Therefore, ranges of available information technologies should be maximized in creating an efficient communication with customers, but also with all other participants in the market" (Ratković & Grubić, 2011, pp. 67-68).

As a very important fact, in the process of making right and timely marketing decisions at a tourist company, there is knowledge e.g. ability of the one who makes decisions to use the information received from marketing informational system (MIS). In that sense adequate and professional personnel should be employed on marketing jobs, because their job is not only to make certain decisions, but necessity to recognize specific marketing issues.

Considering their uniqueness marketing decisions can always contain certain level of risk, therefore they can almost never be optimal and best, but always tend to be on a higher level of quality, because of what they will be better if the quality of marketing informational system (MIS) and its information adjust to the quality of making decisions.

Therefore, from the right comprehension and connection of all elements of marketing informational system (MIS) at a tourist company, depends in a great deal the quality of information and the level of their usage for making even better marketing decisions. That basically mean creation of more certain and safer future through the decisions which are made in the present.

### **Researching tourist market as a way of collecting information in tourism**

Fast and tumultuous development of tourism imposed a necessity to research tourist market. There is a clear difference between research of tourist market and marketing research. Market research is a narrower idea in relation to marketing research. According to one of widely accepted definitions, the research of tourist market includes

”...collecting, registration and analysis of all issues with tourist market, an aim to determine past, present, possible and future service users” (Stefanović & Gligorijević, 2010, p. 151).

As special fields of tourist market research can be named the following (Unković & Zečević, 2011):

- Determination of present and potential tourist requirements,
- Research of present and potential demand,
- Determination of present and potential tourist consumption,
- Research of adequate tourist offer,
- Research of possibilities to improve tourism and
- Determination of tourist services’ prices.

Analysis of information collected from tourist market should answer the questions such as: *who, how, why, when* and to *whom* should be offered certain services on observed market?

There are two basic approaches to tourist market research: macro and micro approach. Macro researches of tourist market are dealt with on the level of certain countries, regions or tourist resorts. Such researches present a foundation to determine and lead tourist politics, e.g. to formulate long-term approach to tourism development. Dealing with jobs in tourist market research on macro level is done by national tourist organizations in cooperation with regional and local tourist organizations. Basic field of interest of these researches is analysis of demand and offer on tourist market. Researches on macro levels are done by concrete companies in tourist economy. Micro analysis starts with the results gained by macro research and they are focused on leading business politics of these companies. In micro analysis of tourist market research, a special attention is also paid to competition research e.g. their abilities and opportunities.

Researching the tourist market enables to define more precisely requirements, motives and tourist behaviour, in order to realise whether there is and in what amount a demand for products/services of a tourist company. ”The final objective of the tourist market research is to obtain information according to which the management of a tourist company will make adequate business decisions referring to solving concrete business issues, what will decrease the business risk to some reasonable scope” (Ubavić, 2012, pp. 43-44).

The process of tourist market research itself consists of three basic phases: (1) preparation; (2) research in narrower sense and (3) results application.

Within the preparation an initiative is established to research the market. Research in narrower sense includes: situation analysis, setting of various hypothesis, research plan, data collecting and registration, data processing and analysis, interpretation and making reports for research users. Within the phase of preparation, application of research results is monitored.

By its importance especially is distinguished a phase in which data are collected. All data sources related to a tourist market can be separated into four basic groups: (1) data in the company e.g. place of research; (2) official (statistical) data; (3) unofficial data and (4) data from specially organized surveys or other forms of immediate research.

First three, previous, mentioned sources of data are named as secondary data sources, while the fourth data source is named terrain and it is used to collect primary

data, which are harder for collecting and at the same time more expensive.

Connected to a tourist market research a special attention should pay to selection of research methods. At the base of this all methods of tourist market research can be separated into two basic groups (Unković & Zečević, 2011):

- Quantitative (based on mathematical-statistical instruments) and
- Qualitative (based on psychological-qualitative technique).

*Quantitative methods* are based, both on secondary and primary data sources. Within the group of quantitative methods of tourist market research can be also named several sub-groups (Stefanović & Gligorijević, 2010):

- Historical methods,
- Methods of examination (sondage) and
- Experimental method.

Historical methods or methods of direct data mainly include statistical methods (average value, indexes, trend, regressional and correlational analysis etc.), then gravitational model and model of market segments. Statistical methods found its widest application in average-term and long-term projections of tourism development. Gravitational model is based on correlational and regressional analysis. In this model construction an important role plays elasticity of some phenomenon which is being researched. As a major issue in gravitational model appears to be finding regressional line which can have a form of a straight line, parabola, logistic curve, exponential function etc. Models of market segments start from previously given quantitative indicators for forming tourist segments of foreign and domestic tourists.

Sondage as a method of tourist market research is based on primary sources of information. The base of this method presents a sample. In tourist market research most applied is multiple-level sample, stratified sample and multiple-phase sample.

Experimental method is used to obtain information according to experimental observation. This method base is made of examination and checking of set hypotheses. In observation of a certain phenomenon two groups are taken, of which one is experimental and is exposed to a required factor affect, while the other group is chosen by the principle of random from the same mass and it is not exposed to required factor affect. This method is suitable for example to determine effects of tourist propaganda.

*Qualitative methods* of tourist market research are based on application of psychology and are mainly oriented on research of travel motives and attitudes or opinions of tourists. Among qualitative methods can be named the following:

- Thorough interview,
- Technique so called „third person“,
- Technique of completing sentences,
- Association tests on given words and
- Prejection technique.

Among the qualitative methods, a thorough interview has the widest usage. In this interview there is a sincere and thorough conversation with a group of 50 to 200 people, usually individually, and in certain cases in the group as well. Interviewees are asked direct and indirect questions. It is necessary to relieve from their conversations either conscious or unconscious motives of their behaviour.

As a basic problem in qualitative methods of tourist market research there is a readiness for cooperation of all persons who are supposed to be interviewed. In accordance to this there can be the following situations: (1) asked information is known to the interviewed person and she is ready to announce it; (2) asked information is known to the interviewed person, but she is not ready to announce it directly; (3) asked information can be obtained from the interviewed person, but she is not capable to describe it or express directly and (4) asked information on present of potential interviewees can be obtained only by observing them by the researcher.

If we observe advantages and disadvantages of quantitative and qualitative methods of tourist market research, it can be said that the advantage of quantitative method is that results can be expressed numerically, what represents an important quality in the sense of exactness. Usage of qualitative methods requires more effort, however by applying them some general and essential data can be gained. From that reason it is recommended a combination of quantitative and qualitative methods what can enable achievement of numerical expression of quantitative research results, and that is a condition to expand usage of qualitative methods and at the same time gaining more qualitative research results.

## Conclusion

As in other economy activities, also in tourism, for a direct business activity certain resources are needed. Besides material, financial and human resources, informational resources are also necessary, or information, in accordance to which managers in tourist companies will make adequate and timely business decisions. In order to collect the necessary information for management and making decisions in every company, and also in a tourist company, it is essential to have a plan of collecting, processing and analysing such information. Company's management should initiate influx of required and qualitative information, and for that it is necessary to have an adequate informational system, as well as professional personnel who will deal with selection and data processing and their presentation to responsible managers.

In modern business conditions the importance and role of marketing is indefinite and informational system marketing (MIS) in collecting, processing and analysing of information from the company's surrounding. On the other hand, every tourist company which runs a business on a profitable base, must organize market research, both domestic and regional and international, in order to be in touch with contemporary phenomena and movements on them.

Developing modern informational systems along with support of information technology, strategical management of tourist company becomes more reliable and flexible, what essentially increases its competition ability. A range of changes of intern and extern character, which follow business in modern tourism, caused expansion in informational technology (IT) application. Therefore, complete and efficient plan of using informational systems and information technology in a tourist company requires a systematic approach, creative thinking, serious analysis, investing material and other resources, a different profile team experts, as well as efficient intern organization along with full management support.

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## THE NECESSITY OF SOLVING THE YOUTH UNEMPLOYMENT

### Abstract

*Situation and trends in the sector of un/employment of workforce are conditioned primarily by global trends, but they also express the content of economic and political measures that are undertaken in each country, both in the field of economic development, as well as in the labor force employment policy. High unemployment, especially of youth, is one of the main economic and social problems, but is also an indicator of the state of the economy. The labor force remains under-utilized development potential, and unemployment of workforce creates numerous social, demographic and political consequences in society. Unemployment is unsustainable for economic and social reasons. This paper points out the necessity of solving unemployment but it also suggests the methods of solving this problem. Thus, by application of the proposed development policy measures, the unused human resources (human capital) are employed.*

**Key words:** youth unemployment, labor, social problems, political instability, economic cost, the problems of youth.

**JEL classification:** E24, F41, O10

## НЕОПХОДНОСТ РЕШАВАЊА НЕЗАПОСЛЕНОСТИ МЛАДИХ

### Апстракт

*Стање и трендови у сектору не/запослености радне снаге условљени су првенствено глобалним токовима, али изражавају и садржај економско-политичких мера које се предузимају у свакој земљи појединачно, како у области развоја привреде, тако и у политици запошљавања радне снаге. Висока незапосленост радне снаге, а посебно младих, представља један од основних економских и социјалних проблема али и индикатор стања у којем се привреда налази. Радна снага остаје недовољно искоришћен развојни*

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*потенцијал, а незапосленост радне снаге проузрокује бројне социјалне, демографске и политичке последице у друштву. Незапосленост је неодржива из економских и социјалних разлога. У раду се истиче неопходност решавања незапослености али и прелажу методе решавања овог проблема. Тако се применом предложених мера развојне политике упошљавају неискоришћени људски потенцијал (људски капитал).*

**Кључне речи:** *незапосленост младих, радна снага, социјални проблеми, политичка нестабилност, економски трошак, проблеми младих.*

## Introduction

High unemployment of the working age population, especially young people, represents one of the major economic and social problems. It is an expression of negative economic developments. From the economic point of view, unemployment represents untapped economic potential that can be used for accelerated economic growth and development.

Youth unemployment today is a serious economic and political problem in many parts of the world. This is one of the most pressing issues not only in Europe and North America, but especially in developing countries.

For young people it is difficult to go to the labor market. There is a risk of entering into a vicious circle of performing poorly paid jobs in poor conditions and transmission of poverty to the next generation. In generally unfavorable social climate, young people are often on the verge of poverty, uninformed and without a clear strategy for their personal development. Even there, where there is a relatively high level of social assistance, the question arises whether obtaining of that assistance threatens the self-esteem of the unemployed. They do not recognize their role in society, because there is no systematic care for them, which among other things implies support in personal development, recognizing their quality and use of their talents for productive purposes. The right to employment is sometimes considered as one of the basic human rights. However, this right is not recognized even in some highly developed countries as one of the human rights. For example, in the United States, unemployment is expected and accepted (Džordž, R. 2003. *Poslovna etika*, Filip Višnjić, Beograd, p. 367). Full employment which is characteristic for the state system where the Government is the employer could be labeled as a paternalistic state intervention. Even the counseling of unemployed to turn to a professional reorientation, what is sometimes advised to clients of employment centers, could be characterized as linguistic-expressive paternalism (Prnjat, A. 2008. *Crkva i paternalizam – odgovor Mihailu Markoviću*, Filozofija i društvo, vol.19. br. 2. p. 255). The legal compulsion to professional reorientation as a condition for retaining social assistance would also fall within the paternalistic state intervention.

In order to properly assess the economic aspect of unemployment, it is necessary to recognize its manifestations, i.e., to understand the appropriate theoretical framework and draw certain conclusions on the basis of available data and econometric models.

## ***1. Youth unemployment - a huge economic cost***

The labor market nowadays is facing a severe crisis of youth employment. Youth unemployment is a growing problem with long-term consequences for individuals, communities, economy and society. In the last decade the transition of young people from school to work has become longer, more complex and more turbulent. Young people are faced with problems of high unemployment, increased inactivity and job insecurity. They are three times less likely to find employment than adults. Today, about 74 million young people are looking for work. Researches show that since 2008, the unemployment rate of young people (under 25 years) who are looking for job, has increased in all EU countries, from 7% in Austria and 8% in the Netherlands, to almost 50% in Greece and Spain (European Commission, 2014. [www.ec.europa.eu](http://www.ec.europa.eu)).

The current economic situation is not in favor of youth, and long term unstable economic developments call into question the adaptability of citizens, especially young people, to the given situation. The turbulent economy and rapid changes in political and social structures put pressure on young people, governments, communities and employers. The biggest challenge is how best to ensure that new developments do not further affect the increase in youth unemployment. The existing and new political measures are seeking a way of resolving social and psychological impact on youth unemployment, in different ways.

The economic cost created by youth unemployment has reached about 100 billion Euros a year (in a sample of 21 EU member states) (Eurofound, 2014. [www.eurofound.europa.eu](http://www.eurofound.europa.eu)), while the social cost is reflected in danger of social unrest, apathy and despair. Long-term unemployment in early working life of a young person, underutilization of skills and knowledge, potentially lower wages, may have long-term negative consequences in further life perspective of youth and the risk of social exclusion, and long-term unemployment in early working life of a young person can have long-term negative consequences (The Youth Unemployment, 2013. *European lifelong guidance policy network*, Deirdre Hughes& Tibor Bors Borbely-Pecze, ELGPN network).

The recent sharp decline in the position of youth in the labor market (aged 15 to 24 years) continues to deteriorate significantly in many countries. There is significant increasing part of the youth population who cannot manage to find a satisfactory job or, in general, paid work (Eurostat, 2014. [www.epp.eurostat.ec.europa.eu](http://www.epp.eurostat.ec.europa.eu)). The potential negative impact of the issue, with a large number of young people who are potentially under the misapprehension, unhappy in adverse conditions, deserves greater attention of politicians. The Member States of the European Union are trying to solve the given problems and to reduce youth unemployment by 2015.

Also, there are stark contrasts between the Member States of the European Union, with the unemployment rate higher than 20% in a third of them, and about 50% in the Mediterranean region. The only European Union member states with a low percentage of youth unemployment are Austria, Germany and the Netherlands, all in the range of 7-9%. Even Germany, which is in better economic shape than most of Europe, is struggling with the problems of youth unemployment. From the various scenarios throughout Europe it follows that at the heart of government policies there is an urgent imperative for new and better management of the European Union, new employment opportunities and stronger social cohesion (European Commission, 2014. [www.ec.europa.eu](http://www.ec.europa.eu)).

## 2. Statistical data on youth unemployment

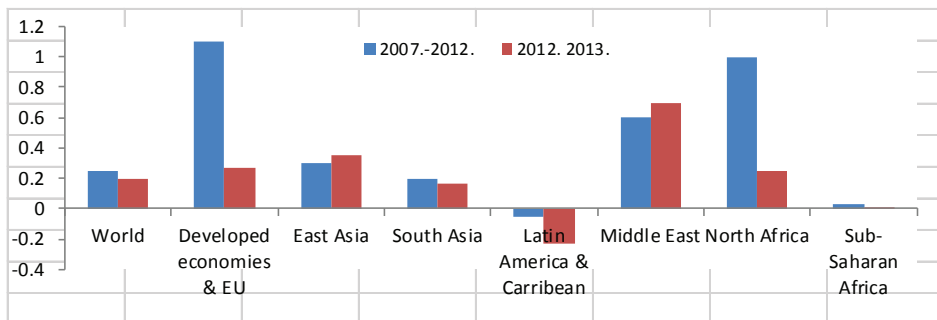
The number of unemployed people in the world rose in 2013 for five million to 202 million people, despite the strengthening of the global economy.

Although business activity increases, unemployment also rises, and this trend is expected to continue in the coming years, and predicts that by 2018, 215 million people around the world will be without a job (ILO, 2014. [www.ilo.org](http://www.ilo.org)).

The largest increase in unemployment was recorded in East and South Asia, followed by Africa and Europe. In North Africa in 2013, the unemployment rate was 12.2%, and in the Middle East it was 10.9%. Europe, North America and other developed economies had unemployment of 8.6%, and the countries of the former Yugoslavia and the USSR of 8.2%. In sub-Saharan Africa, the unemployment rate was 7.6% and in Latin America and the Caribbean it was 6.5%. In East Asia, 4.5% people were jobless, 4.2% in the southeast, and 4% people in the south were jobless.

Unemployment among young people aged 15 to 24 years is still a major problem. Unemployment is constantly growing and in 2007 it was 11.6%, and 12.9% in 2012, while in 2013, 13% of young people (ILO, 2014. [www.ilo.org](http://www.ilo.org)), were jobless in the world, in relation to the overall global unemployment rate of 6%. It is estimated that the number of unemployed young people between 15 and 24 years, was approximately 74.5 million, which is about a million more than in the previous year. It is expected that the percentage of youth unemployment will continue to rise in 2014 and will reach 13.2%.

**Chart: Average change in youth unemployment rate (percentage points)**



**Source:** Global employment trends 2014. ILO, [www.ilo.org](http://www.ilo.org)

The largest increase in youth unemployment was recorded in the Middle East, and it amounted to 27.2% in 2013, compared to 26.6% in 2012. Also, high youth unemployment is noticeable in North Africa. And in developed economies and in the European Union, a large increase in youth unemployment in the period 2007 to 2012 was registered, while in 2013 it reached 18.3%.

Table 1: Youth unemployment 2007.- 2018. (%)

	2007.	2008.	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.	2018.
<b>World</b>	11,6	12,0	12,9	12,9	12,7	12,9	13,1	13,2	13,2	13,2	13,2	13,2
<b>Developed economies &amp; EU</b>	12,5	13,3	17,4	18,1	17,6	18,0	18,3	18,0	17,4	16,8	16,3	16,0
<b>East Asia</b>	8,0	9,2	9,4	9,1	9,4	9,7	10,1	10,5	10,8	11,1	11,4	11,6
<b>South Asia</b>	9,2	9,5	9,8	9,7	9,7	10,1	10,2	10,4	10,4	10,4	10,4	10,4
<b>Latin America &amp; Carribean</b>	14,1	13,6	15,5	15,0	14,3	13,8	13,6	13,5	13,4	13,3	13,2	13,1
<b>Middle East</b>	23,9	24,1	23,7	26,2	26,0	26,6	27,2	27,9	28,2	28,4	28,5	28,6
<b>North Africa</b>	24,2	23,7	23,9	23,7	28,1	29,2	29,4	29,5	29,5	29,5	29,5	29,5
<b>Sub-Saharan Africa</b>	11,7	12,1	12,1	12,0	11,9	11,9	11,9	11,8	11,7	11,7	11,7	11,7

Source: Global employment trends 2014, ILO, [www.ilo.org](http://www.ilo.org)

Within the Euro-zone, unemployment rate (Guardian, 2014. [www.theguardian.com](http://www.theguardian.com)) was 12% in 2014, but young people are most affected (under 25 years of age). At the level of the entire EU, the youth unemployment was 23.4%, in Greece 59%, in Spain 54.6%, in Italy 42.4%, in Poland it is 27.4%, in France 25.4%, in UK 20% and in Germany 7.6%.

Table 2: Youth unemployment (%)

	January 2013.	October 2013.	November 2013.	December 2013.	January 2014.
<b>EU 28</b>	23,7	23,3	23,4	23,3	23,4
<b>Belgium</b>	22,6	23,4	23,8	23,9	24,3
<b>Bulgaria</b>	27,8	28,6	28,9	29,4	30,0
<b>Denmark</b>	13,1	13,2	13,0	13,6	13,7
<b>Germany</b>	7,8	7,8	7,7	7,7	7,6
<b>Greece</b>	60,0	58,9	59,0	-	-
<b>Spain</b>	55,8	55,8	55,3	54,6	54,6
<b>France</b>	26,1	25,2	25,5	25,6	25,4
<b>Italy</b>	38,4	41,5	41,7	41,7	42,4
<b>Hungary</b>	28,4	25,5	25,1	24,5	-
<b>Austria</b>	9,1	9,8	9,7	10,1	10,5
<b>Portugal</b>	40,3	35,1	34,8	34,4	34,7
<b>Slovenia</b>	21,4	23,3	23,3	23,3	-
<b>Sweden</b>	23,5	21,4	24,1	22,6	22,9
<b>Finland</b>	19,8	19,7	19,6	19,6	19,7
<b>Great Britain</b>	20,9	20,1	20,0	-	-
<b>Slovakia</b>	34,4	33,0	32,9	32,3	31,3
<b>Poland</b>	27,7	27,4	27,4	27,3	27,4
<b>Netherlands</b>	10,3	11,6	11,4	11,3	11,1

Source: Guardian, [www.theguardian.com](http://www.theguardian.com)

### ***3. Problems of youth - the mismatch between supply and demand for labor***

The problem of youth unemployment is a burning issue both in the EU and Serbia. The youth employment rate is extremely low. Adverse conditions in the labor market, especially after the impact of the global economic crisis, hinder the transition of young people from education to the labor market. However, and when they manage to get a job, their position is worse in comparison to the older groups of employees. They are often employed part-time, in temporary jobs and in the informal economy.

Young people are aware of the problems they are faced with when attempting to enter the labor market. It was indicated in the research that CESID conducted in 2008, in which they examined different attitudes of young people. According to that research, young people pointed out unemployment as the main and biggest problem. Some researches pointed to the differences in the working behavior of young people from urban and rural areas. It was noted that young people from urban areas were willing to take more proactive strategies in trying to get a job, than young people from rural areas. The research showed that unemployment is a powerful factor of young people's intention to migrate. More than a fifth of young people from urban areas and 19% of young people from rural areas emphasized that they were seriously thinking to move out of the country. On the other hand, the research on migration potential in Serbia showed that most potential migrants (44%) were among the young people. It warns of the danger of leakage of valuable human resources from the country, which represent an important potential for growth and development, especially if one takes into account that most people with entrepreneurial potential, are among youth (2013. [www.poslodavci.org.rs](http://www.poslodavci.org.rs)).

Many highly educated young people are trapped in low skilled and low-productivity jobs. These young people are in danger of losing their skills, which may adversely affect their further employment.

As one of the biggest causes of such a situation, businessmen most often point out the problem of discrepancy between the system of education and the real needs of the economy. Certain number of reported needs for employment remains unfilled, because there are no persons with appropriate knowledge and skills, while on the other hand there are a large number of people with qualifications for which there is no need in the labor market. Mapping the structure of employees and the needs of the labor market is crucial for outlining proposal for changes related to educational programs that will be tailored to the needs of the labor market and for creating employment programs.

The complex situation and unfavorable indicators in the labor market, the mismatch between supply and demand in the labor market and incompatibility of the system of qualifications and vocational education with the EU, are the challenges that Serbia will face in the future.

General overview of the labor market aims to serve as a broad picture of current developments and critical elements in the sphere of unemployment and employment, qualification, gender and educational structure and dynamics of entry and exit of the labor force in the labor market in the region (Pušara, A., Vuković, A., & Đoković, G. 2014. *Unemployment as a key factor of development and economic instability in the region*, Beograd, *ANTIM*, p. 138). Structural unemployment occurs as a result of

the qualification, educational or spatial mismatch, which is most often the result of restructuring and transition processes. Corporate restructuring and overall sectoral transformation of an economy leads to disorder and mismatches in the labor market and to higher unemployment. Mismatch between supply and demand for labor is a consequence of the transition process. Whether that mismatch will have a short-term or long-term character, depends on the degree of labor market development and its efficiency. If the labor market is ready for transition processes that occur, then inasmuch the emerging issues of incompatibility of education, qualification or location mismatch of supply and demand in the labor market would be solved faster and more efficiently.

#### ***4. Youth unemployment: the crisis of our environment***

The youth unemployment rate in Serbia is 51.2%, which means that every second young person is without a job. The causes are: education that is not adjusted with the needs of the labor market, a high percentage of young people without qualifications, lack of jobs and a great number of people who work on the “black market”. In Serbia, around 207,000 young people aged 15 to 30 years are without job, and out of that number more than 20% are unskilled, about 58% have secondary education, while 63.3% are without work experience. The youth unemployment rate, in the last four years, has increased by 16%.

Particularly worrying is the extremely high youth unemployment in B & H, who have difficult access to the formal sector, where are the majority of the employed labor force with many years of working experience, while on the other hand the “black” labor market is still largely present and due to which the actual unemployment is much lower than registered unemployment.

The unemployment rate of young people between 15 and 30 years of age in Montenegro, for the first quarter of 2013 amounted to 45.3%, while only 11.8% of young people in Montenegro were employed. The overall rate of youth unemployment in the first quarter of 2013, increased in comparison to unemployment rate from 2012, which amounted to 43.7% (MONSTAT, 2014. [www.monstat.org](http://www.monstat.org)). These data suggest that young people in Montenegro have difficulty looking for a job, but also reflect the overall macroeconomic situation.

The results of the survey on the views, opinions and habits of the Montenegrin youth aged 15 to 24 years, show that almost half of the respondents had no personal income (19.1% cited the inability to find a job), and nearly half of examined youth (48%) stated that they would start their own business in the following sectors: finance and business (24.8%), trade (22.9%), agriculture and manufacturing (16.5%), while the remainder (25.4%) would like to start a business in the field of education, computers, law and traffic (DAMAR, 2014. [www.cdm.me](http://www.cdm.me)).

Based on the above it can be concluded that the youth in the region have no motivation for self-advancement. In order to solve this problem, the National Employment Service in Serbia announced in October 2013 a public call for employers to engage in a joint project of USAID and 32 local governments. Program of support for workforce development is open to all private companies interested in the engagement of new employees and includes two months of training in private companies (the



National Employment Service, *www.nsz.gov.rs*, 2014). The Government of Montenegro, in cooperation with authorized organizations engaged in promoting the employment of young people, organized a program of professional training. So far, 4,211 people with high education participated in this program and achieved their first business experience (unfortunately, as much as 67% of program participants opted for performing practices in public enterprises). The final results of the program are positive, and there is the possibility of its recurrence in the future, although it is currently difficult to estimate how many of them will remain in the workplace, and how many will return to the Bureau of Employment (MONSTAT, 2014. *www.monstat.org*).

And EU member states have so far employed a wide range of policies and measures in an effort to solve the problem of creating jobs and greater professional opportunities for young people. These policies and measures include: providing work experience, improving the relationship between education and work, guarantees for young people, assistance with job search, promotion of entrepreneurship. The International Labor Organization, as far back as 1964 passed the Convention No. 122 on employment policy, which was created as an expression of the understanding that the ILO was obliged to consider and take into account the effect of economic and financial policies on employment policy, and that all people had the right to material progress and spiritual development in freedom and dignity, in economic security and under the same conditions. Particularly significant is point 3 of paragraph 2, which stipulates the existence of free choice of employment and the opportunity to acquire the necessary qualifications (Rončević, D. 2006. *Diskriminacija u zapošljavanju*, Beograd, Dosije, p.68). Terms used in the ILO Conventions, remain very general to be applicable to various forms of professional relationships. International labor regulations, however, do not try to impose any particular system. Since each national legal order should include a number of political, economic, social and cultural factors, including historical component, it would be unrealistic to suggest something more than the minimum regulations, basic principles that can be applied in most, if not all national systems (Rončević, D. & Walter, A. 2011. *The impact of the global economic crisis on trade unions*, Beograd, *Glasnik za društvene nauke*, p. 209-234).

Faced with high rates of youth unemployment to 24 years, which in some EU countries exceeds 50%, the European Commission adopted a Recommendation, in February 2013, by which the program of support measures “Guarantee for Youth” is applied, since the beginning of 2014. The number of unemployed youth in the EU amounted to 5.7 million in December 2012. The EU has earmarked for that program 6 billion Euros, for the period 2014 - 2020, particularly in regions where youth unemployment rate is over 25%, noting that the beneficiary countries should invest and their own resources in the program.

The program “Guarantee for Youth” implies that young people up to 24 years, who are not employed for a period of four months after the end of formal education or after the loss of a job, are offered alternative work, further education, practice, or the acquisition of craft skills. There are also suggestions from the EU, that age of young people who should be included in the program is raised to 30 years (The National Employment Service, NSZ, 2014. *www.nsz.gov.rs*).

The program “Guarantee for Youth” is not new, it is an experience applied by the countries such as Austria, Germany, Denmark, Finland, Sweden, which now have the lowest rates of youth unemployment.

## Conclusion

Unemployment is one of the most serious economic problems, because it means the absence of production and income, causing high fiscal costs, and contributes to a significant degradation of human capital, increases inequality in society, and causes significant psychological burden, leaving the experience of uselessness and futility. With regard to the consequences that entails, high unemployment, especially of youth, should not be tolerated.

The Unemployment in the Balkans represents the long-term development problem manifested with a special ferocity in recent years. Because of the deep economic and financial crisis, as well as political instability, most countries of the Balkan region recorded a very slow economic growth and consistently high unemployment rate in recent years. High unemployment in the region is caused by the low level of economic development and the economic reforms that are poorly implemented. The growth in the overall unemployment rate was accompanied by a significantly larger increase in the unemployment rate in the youth group.

Such trends require that the unemployment reduction is approached as a problem that must and can be solved through measures of developing economic policy. The selection and implementation of these measures involves various areas of economic life, but also more consistent environment of modern market economy.

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## BUSINESS PROCESS IMPROVEMENT APPLICATION OF MODERN MANAGEMENT TECHNIQUES

### Abstract

*Today, globally operating business world is exposed to constant change processes. Reengineering is the driving force that helps companies, business and manufacturing organizations to achieve success in the new millennium that is full of challenges, risks, information explosion, Internet communications, teleconferencing and global competition. Therefore, effective business strategy, well-trained management personnel, financial - tech resources (IT), management skills and the skills and flexibility (responsiveness) are essential for success in business. Market conditions will be created by people who will decide on the changes, plans and projects, organizational culture, new challenges to create value that can be sold (goods and services) and how to define where consumers expect to buy. In this paper, attention is concentrated on the three most important methods and techniques for strategic business changes, observed through the application re-engineering, including self-assessment, teamwork and benchmarking.*

**Keywords:** business processes, reengineering, benchmarking, teamwork

**JEL classification:** D01, L21, M20

## ПОБОЉШАЊЕ ПОСЛОВНИХ ПРОЦЕСА ПРИМЕНОМ САВРЕМЕНИХ ТЕХНИКА ПОСЛОВАЊА

### Абстракт

*Данас, на глобалном нивоу пословања, пословни свет је изложен сталним процесима промена. Реинжењеринг као покретачка снага помаже компанијама, пословним и производним организацијама да остваре успех у окружењу које је пуно изазова, ризика, експлозије информација као и глобалне конкуренције. Ефикасне пословне старегије, добро обучен менаџерски кадар, финансијско - технолошки ресурси (ИТ), менаџерска знања и вештине и флексибилност (брзина реаговања) су неопходни за успех у пословању предузећа. Условне на тржишту стварају људи који ће одлучивати о променама, плановима и пројектима, организационој култури, новим изазовима о начину како да стварају вредност коју могу да продају (производе и услуге) и како да дефинишу место где потрошачи исте очекују*

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*да купе. У раду се пажња усредсређује на три веома значајне методе и технике за стратегијске промене пословања, посматрано кроз примену реинжењеринга, и то: самооцењивање, тимски рад и бенчмаркинг.*

**Кључне речи:** *пословни процеси, реинжењеринг, бенчмаркинг, тимски рад*

## Introduction

Strategic orientation of management for continuously improving the quality of business should be focused on improving the characteristics of existing manufacturing and business processes, and with as little investment funds, than would be the case for investing in the development of a completely new system. Application of modern technology can contribute to the management to operate more efficiently and better. When defining re-engineering in the world and our happiness are a number of definitions. It can be said that: Reengineering is a fundamental consideration and radical redesign of manufacturing systems, business processes, work and organization, taking ‘dramatic’ improvement of business performance in measuring critical points such as price, quality, service, speed. It is now widely accepted synonym for a new technological revolution that is taking place under the influence of information technology, focused on the transformation of the existing production.

The main objective of re-engineering the production and business management systems to reduce the cost of production, products, services, improve quality, increase the range and volume of production, increase business efficiency, increase speed of operation, accuracy, increase competitiveness and so on. This is achieved through the management first perform a partial improvement and rationalization of existing technologies and technological processes. If you do not ensure satisfactorily and expected results, introducing new technologies, and if these new technologies do not contribute sufficiently to improving the market position of the production system, access to fundamental, radical, even ‘dramatic’ changes and the implementation and development of the re-engineering of production and business processes. In doing so, we should not only rely on own resources but should also count on additional investment. If the analysis shows that the need to access the application of this technique, it should be implemented vigorously, comprehensively and without fear, because then the results would be adequate to the organization in which he carried out, i.e. the internal environment, and for its external - the external environment (customers, shareholders, business partners and other stakeholders).

It is important to warn you that the management in an effort to make the implementation of these techniques in the existing manufacturing and business systems should be required to examine the current and future productivity, expressed in commodity and value-form, before making any decision.

From the aspect of improving the quality of management, industrial companies and meeting strategic objectives with the strategic intent to the selection of such changes, new techniques help to the benefit of the success of management, think beyond.

### **Strategy business self-assessment**

Self-assessment (self-assessment) is the process that organizations should implement in order to determine its position on the market or assessment or determine the significance, importance and value of their own organization. This technique is successful if it is implemented in terms of training of personnel, their impartiality and

the criteria that will be applied. Therefore, it is necessary to have experts, who will be constantly trained, compare their criteria with other colleagues in the industry, which will create and implement their questionnaires and others.

The world today has developed questionnaires at the national level, according to certain schemes. The results and evaluation are the starting point for taking corrective and preventive actions by management. (Zakić, 2009) The some companies require their organizational units to conduct a self-assessment on an annual basis according to standardized internal documents and models (procedures and established eligibility criteria). As a rule, self-assessment provides for the functions of leadership, strategic planning, refer to the customer users, human resources, process management, management of technology, environmental management, information management and business results achieved as a significant category in reward quality. Consequently, we can say that: (Loveday, 1998, p. 64-66).

- Self-assessment is an important tool to measure and evaluate business performance across the company in relation to a number of criteria to be met when applying for quality awards (Japanese, American, European or our Award ‘Oskar quality’) and,
- Self-assessment is used for verification, which means teams limit the feasibility of the desired results of operations for process improvement. These checks companies use as the basis for comprehensive and effective comparisons within the benchmarks and as the basis for improving the performance of the business process.

If a company wants to set itself apart by its high-quality products and services in today’s competitive market, it must be able to set goals to improve and to measure their progress. People have a certain fear of the implementation process of self-assessment, but all you have to do it is to make a simple plan of action that sets small realistic goals within the domain of critical success factors, defined from top to bottom of the ladder. This may include in addition to the goals of staff development and improvement of work processes. Measuring their own progress shows how well you perform set tasks and goals. (Carr, 1995) Based on the international experience it is believed that companies need to shift from an annual assessment of the structure that makes possible continuous measurement of its own progress. Problem applying techniques of self-assessment is in setting goals and in measuring. Goals should be simple, easy to understand and interesting enough for people to which they relate in order to force them to take action to meet this objective. Self-assessment will help people to understand the spirit of policy changes in the business organization. Knowledge of strategies and objectives as the basis of the corporate will help to set targets, new techniques and the quality of business processes, to explain the vision of the organization and what it is that top management wants to achieve. Teams and individuals need that provided the opportunities to developing own goals and to measure own progress. Practice and science have shown that short-term goals can quickly lead to success and to motivate people to set new challenging goals for future self-assessment. On a business example of a company that had mapped out a strategic goal, says that top management had: high awareness of quality processes to be redesigned and goals-oriented customers. (Babcock, 2010) The next step was related to the transfer of these objectives at lower levels, and teams should participate in the research and knowledge: who are the customers, which way to establish communication with customers, how to get feedback and how to measure customer satisfaction achieved.

## Benchmarking process

Benchmarking is a technique applied to modeling and improving business processes in developed companies in the world that can bring high business results in the application of technology re-engineering of business processes, which are now also very widely used in practice in order to improve productivity and achieve competitive advantage. It starts from the fact that the re-engineering of production or business begins by establishing a model of the real world and that in these cases one of the possible ways to improve the operations that are going to become familiar with ‘best practice’ that exists in a particular activity at that time. The key role of this technique in the re-engineering is to enable the company to come up with creative solutions to redesign their processes and to achieve a high quality improvement of its processes and quality performance of products and services.

Benchmarking means the process by which we measure their results with others and learn from others, usually direct competitors. Ranges with comparing the strategies of competitors with their own strategy, continues comparing the most important business processes, products, technical solutions and features competitors with their own solutions and functions in order to come to know the actual gaps and evaluate opportunities to become better than others. (Ličina, 2012, p. 196)

Of particular importance for companies to constantly adjust the goals, activities and organization changes that occur at the customer. This process of adaptation can be achieved by continuous comparison of products; services and concrete practice their own companies with the strongest competitor, or with companies that are considered leaders in this type of activity, the use of relative measures. (Doumeings, 1997)

Benchmarking or improvement comparing represents managerial tool that serves to define the changes accomplished goals. Represents a continuous assessment of business objectives and comparisons with ‘best in class’ or realized and accepted standard, based on measurable characteristics. It aimed at maintaining or establishing a competitive advantage. The main aims of the application in companies that are based on the experiences of leaders set reference points and then use them to achieve the same or better performance.

Benchmarking method applies to a large extent modern management, because of its simplicity and the characteristic of positive characteristics. Advantages of benchmarking are collecting strategic, managerial, and organizational and other so-called ‘hard’ data that can be compared, and whose data comes from real life, that is, the practice of the best companies in industry. (Deming, 1993).

Management is particularly important task before implementing the decision on the application re-engineering using the method of benchmarking to understand the essence of the technique. In fact, you should know that the benchmarking technique is reflected in the activities of defining, analyzing and measuring their own processes. This method can reveal problems and weaknesses in their own organization. Practice shows that benchmarking should be seen as the final step is taken only when companies implement all the necessary changes and improvements and execute when measuring the results achieved by introducing these improvements. The realized value of the process depends on the results of work teams. Each task force is focused on business process. Benchmarking and teams are techniques that need to be jointly used to improve the performance of the business process and the entire organization.

Key phases of the benchmarking process are:

1. Detailed analysis of the business process;
2. Measuring the adequacy of carrying out this process in their own organization;

3. Compare the ways in which this technique is implemented and the achieved level of its implementation in relation to its competitors, that is, companies with the best pragmatic experiences within their own company or companies ‘world-class’;
4. Improving your own processes and business performance to the level of ‘world-class’.

Benchmarking procedure includes the following steps:

- Systematization objectives of benchmarking;
- Identification of relevant facilities to be improved in accordance with the standard;
- Applicability of the current practice of benchmarking;
- Finding typical, illustrated examples that will serve as a standard for comparison;
- Examine potential problems and future research directions.

Experiences of developed companies indicated that the paradox in benchmarking lies in the fact that it is difficult to become ‘the best’ by copying others, also the best business entity. In fact, just copy the best practices of other companies is not enough. It is necessary to fully understand the process of its own, in order to create safety in terms of which one of them will reach the limit so important. If this is not understood correctly, all of the implementation of reengineering efforts may be in vain. A key step in achieving a successful outcome is to determine: What business processes should be comparable benchmarking? (Dragomanović, 1998). The first step is to create a ‘process model’ of business, that show what the organization does and how it looks. When the processes of study and accept the impression that the organization does two things: Creates and develops something that makes and sells; and makes and sells something that is created and developed. When an organization makes a model of the process and understand how the processes are in operation, can initiate simplification and elimination of redundancies (engineering business processes). (Janićijević, 2008).

However, the management of the operation is required the ability to allocate priorities i.e. key processes for competitiveness. Another priority of the process model is to determine the process owner, or the owner of a set of benchmarks benchmarking, which will be responsible for their implementation.

### **What process should be benchmarked**

When you define the model and introduce business processes, organizations need to find the most convenient way to choose where to start the implementation of benchmarking as an important technique in business process reengineering. Therefore, it is necessary to create a clear picture of the business objectives and understand the market in which the company is located, in terms of customer demands and competitive pressures. The best starting point for this is to define for each product or service that you offer the customer the criteria for qualifying orders and receiving orders that are quickly becoming industry standards. However, that company got the job, i.e. satisfy the customer needs to create a diversity that the buyer will be seen as an additional expense, over those offered by the competition. (Klarin, 1996) It is the criterion of obtaining orders for business, which are in fact the performance of the company must achieve in a market.



It is important to add another aspect of this model. The fact is that over time, changing customer expectations and competitive opportunities, and what today brings business can become a qualification for tomorrow or today's model criteria receiving the order will become tomorrow's qualifying orders. In addition to these requirements should be included so 'critical success factors' relating to the organization internally to the organization meet the external needs in focus. The key success factor is the need for an environment that encourages innovation and the need for effective teamwork. (Živanovic, N., Živanovic, V., Todorova, & D., Živanovic, M. (2013).

The most successful performance benchmarking is when companies can see what they do in a whole new light and use the results to identify the source of benchmarking. Sources occur through developing a clear picture of the business as a set of processes that enable the actual activities that can increase competitiveness or to expose the main causes of the lack of competitiveness.

As defined processes for benchmarking helps to achieve competitive advantage, is a question that needs an answer to that company's management. On the basis of efficiency in modeling, business processes are increasing efficiency benchmarking. In fact, the efficiency can be achieved so that the established critical factors and associated processes contribute to the definition of performance that connects business goals within the organization. Regulated processes can be measured, which allows all parts of the enterprise to measure their own performance against the objectives of the business performance. Effective measures contribute to monitoring the development of improvement activities within the company at any time in relation to the needs of business in a reasonable manner, and not in relation to what individual departments may wish. An example of an industrial company illustrates how processes help identify benchmarking? According to the data, the company is having difficulty in the redistribution of daily operations at the plant. The initial step in solving emerging problems was to study the best practices to control plant and systems deployment. After the modeling process, it was determined that the problem lies in the management order.

When they get orders from customers to production, which normally delayed by two to three weeks, it meant that everything will have to be redeployed to the more shortened deadlines. Practice shows that the competitive advantage of innovative technology driven processes much more difficult to copy than the one driven by the product, especially when it is to be achieved for the first time in the company, which would later use the other.

### **Main features benchmarking in process reengineering**

In the business world, our companies need to know a few important characteristics in comparison with the best in the market, namely: (Khan, 2004).

1) For the application of benchmarking as an important technique to improve processes and overall organizational performance in the market it is important to question the type of benchmarking. It is considered in two cases: First, consider the internal benchmarking to be carried out within the company. Analyzed similar trends work in different departments (regions), and therefore their values are compared with each other. Advantages of this type are:

- Rapid rise and the organization's performance,
- Efficient collection of information and the number of data,
- Application in medium and large companies, sometimes in small businesses.

Second, consider the benchmarking relating to competition in the industry: The point is to identify and compare the strong and weak points of direct competition. This strategy differs from the classical analysis of competition. The advantages are:

- Manufacturing and business processes that are compared directly which facilitates fast transfer,
- Clear own position against the competition.

## **Bench marketing how it's done**

Way as to ensure the successful implementation of benchmarking in the implementation and development of reengineering is as follows:

### 1. The objectives in doing so, we have in mind:

- Net position in the market. The key question is: What effect enterprise customers the highest prices? Is it necessary and is it possible to compare the production? The key question is: Where are our problems? Where deficits arise?
- Perform goals. For example, shorten delivery time. Develop a list of priorities. Establish Benchmarking procedure: define what we want to subject benchmarking (procedure, process, product, strategy). Define how to most effectively implement benchmarking (internally, in relation to the competition, functional) and establish benchmarking, project team assigned responsibilities and tasks.

### 2. Implemented internal analysis

- Conducts analysis to set benchmarks in the areas of internal and production processes. Defines who is doing what, how, and why, at what time and with what results?
- Defines the market to which it refers benchmarking. Define the measured variables (egg. Determining production costs per unit, share of F & E (cost of sales, reclamation and quota stocks on hand).
- Develop a catalog of questions that serve as a basis for comparison with the benchmarking partner.

### 3. Implemented comparison

- Choosing the right partner. Define which companies in the industry that have the desired competence? Determine whether you can get under the circumstances the anonymous data from those companies that are the best in practice?
- Developed a catalog of questions compared with the benchmarking partner.
- Data benchmarking partners realize preferably as pre-testing.
- Compare these data with the data from our company. Analyze the causes of declining results. Determine whether you can exclude measurement errors. Determine whether the processes that are being compared are identical. Determine whether there is a real deficit own power. (Živanović, N., & Lukić, S. 2009, p. 142).

4. Measures to improve. Measures to improve it are necessary to determine the specific deficit of power, the goals of their own company and determine priorities necessary:

- Make plan of action, what you need, what you can and assess the situation

according to the introduced changes? (It is important to know that when you do not need to copy the best practical methods of benchmark partners, but should be optimized and do not carry the product has passed the target).

- Identify the tasks and responsibilities: who, what and when to do it?
- Define boundaries to time quickly noticed success in trade.

5. Transfer and control of benchmarking Re-examine the application of measures to determine:

- Are the boundaries established and whether they meet the goals?
- Is the increased success?
- Are the improvements cost?
- Furthermore, introduce further measures related to the development and qualification.

After the implementation of measures to improve the techniques in the context of benchmarking (comparing to the market), the results should once again compare with a partner. In doing so, to determine:

- Can the results really transferred, i.e. ‘Transferred’ to the business partner with whom the comparisons?
- Subject to further work needs to initiate a new benchmarking project with a new partner.
- Plan long term goal: It means continuous improvement process with the help of benchmarking.

## **The Importance of Teams in Process Reengineering**

Teams are the driving force in the business of any organization. To improve any process or operation in this technique, it is necessary to include a team of experts of different professional. For high efficiency of the team, it is essential that the team is motivated, trained, and that his clear goal, that is creative and innovative and has provided funds for the work. Capable team may lead the company to a high position of competitiveness (Aston,1998, p. 62-65). The meaning of the teams is the participation of employees in achieving continuous process improvement process re-engineering, in order to achieve organizational efficiency. Teamwork is the means by which the company becomes better in the market, achieves faster customer requirements and implements secure business applications. That is exactly what the competition wants to reach. (Collins, 1994).

## **The Role of Team in the Implementation process Reengineering**

Given the fact that success in business enterprise creates the principle of teamwork and proper cooperation of employees who encourage and accelerate the achievement of that success, every manager knows that after the missions and goals of the business, you need to determine and evaluate the level of cooperation and teamwork in a group. This is necessary to achieve the desired results and the plan set. If people are not working together to solve tasks, especially for complex structures activities reengineering

process, it may appear different problems that lead to the problem of achieving success in carrying out tasks of individuals. (Towers, S. 1996.) This leads to poor communication, inefficient labor, poor customer service, increased operating costs, low productivity, poor quality products and services, and poor overall performance of the company. Teamwork is a type of group work in which members have their clear responsibilities, scope of work and responsibilities, agreed by working with other team members and contributing to the achievement of set objectives.

## **How to Remove Bad Factors that Hinder Teamwork in the Reengineering**

The task manager is to remove all obstacles that stand in the way of success, and which in practice occur due to:

1. Lack of common goals of teamwork and cooperation;
2. Created conflict among people of different opinions about the process of re-engineering;
3. Unsolved problems in achieving success;
4. Unclear roles of employees and their duties and responsibilities;
5. Individual plans, conflicts and struggles for prestige, and competition among employees;
6. Unequal reward for the success of individuals;
7. Dissolution of good communication;
8. Bad planning;
9. Lack of desire and mood for giving initiatives for teamwork;
10. Lack of resources needed for the success of the team and others.

## **Conclusion**

Industrial companies today, at home and abroad, are largely dependent on foreign knowledge and pragmatic application of the doctrine of know-how. Development and application of modern techniques, methods and technologies that increase market share and product quality, it is imperative to today's management. For the implementation of the above methods are needed to improve the business strategic management decisions. These methods of self-assessment, teamwork and benchmarking with the application process reengineering, enabling the planning and implementation of strategies to improve the operation of industrial enterprises. The implementation of these methods contribute to: improving the quality of business processes, achieving the necessary bandwidth of continuous improvement, efficiency and economy of operations and continuous monitoring of the work of the best companies in the class. This makes it possible to incorporate a wide range of modern knowledge which is constructed a large number of optimal solutions as the essence of strategic intentions, choices and target companies. Management by efficiently creating the space needed to quickly and efficiently penetrate with its strategy of producing products on the market and thus create a brand as a basis for competition. Reengineering is an effective technique in recent years has been rising and implemented in a large number of modern industrial enterprises. The strategic objective of this technique should be a priority management, in order to quickly generate their planning and strategic solutions.

Generating the best knowledge planners, designers, and strategic management through modern solutions, increases the level of flexibility, achieves greater motivation of employees and implement a continuous monitoring of performance achieved self-assessment. Modern business, economic conditions incorporated in the factors of product quality and service, are placed in the foreground. That said, it's basically all companies, it is important to achieve the goal of such a way to achieve efficiency. Accordance with the functional and performance benchmarking applied in practice companies, within the context of modern business, both evolutionary and internal benchmarking exercise to determine the level of the key parameters of benchmarking as a development and modern business processes.

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