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UNIVERSITY OF BUSINESS ACADEMY  
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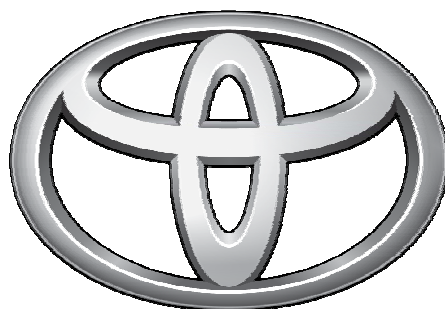
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## P R E F A C E

During several previous decades historical changes have occurred towards increase of national and corporate efficacy. During the previous 25 years, the global economy duplicated itself in every 10 years. In 1999 it had 31 trillion dollars of the total DGP, whereas in 2008 the figure amounted to 62 trillion dollars. Man has never lived better in his history than he is living today. Working hours are significantly decreased and now amount about 40 hours of work per week, with the tendency of further decrease. Man has never had more free time than he has today. Man has managed for the first time to achieve the life span of about 80 years in highly developed countries. Spatial dimension and location have now become less significant factors related to the traditional conception.

The mentioned achievements are accompanied by the globalization as the new quality in the international relations. It has created chances for simplifying business transactions and enhanced all elements of life and work that has lead to the syntagm of "Thinking globally and acting locally". Indeed, today there are no problems on the global level that could be neglected on the local level, i.e. any local problem could become global, which will probably lead to formation of global government in future that will be an operational body for managing the global problems. However, the globalization also creates problems. Namely, there has come to globalization, i.e. to integrated decentralization of economies of various states that are mutually connected and in such business networks, it is impossible to be independent any longer which also can be seen on a simple product for production of which several companies from different countries from different continents are included in. On the other hand, politicians have mainly remained nationally oriented, most frequently endeavoring in having as large feud as possible whereat they would spread their domination. This contrast is in the core of many controversies negatively influencing on the global but the national efficacy as well. It is similar with preservation of the national, religious and custom varieties, which will represent a new challenge in global processes development, so that universality would be provided on one side and variety preserved on the other. Without a better coordination between politics and economy on the global level, the world will difficultly fight to provide fast capital flow outside the national boundaries and with the insistence of politicians, especially of the developing countries and transition countries to politicize many phenomena. These activities decrease business efficacy and finally question the survival of business organizations.

To the mentioned another alpha plus should be added, and that is information technology, contributing the process of globalization and practical connection of countries, different cultures, religions, customs and mentality. Although IT does not belong to the revolutionary technologies, it has without doubt performed a revolutionary influence on the national and corporate organizations, but also on life and work of any individual. It has increased the communication speed, simplified and cheapen many business processes, and fundamentally changed the traditional business infrastructure. Undoubtedly the trend of informatization will continue and many of the business performances will gain in their speed, quality and price.

Parallel to the mentioned process, the world is occasionally struck by crisis, i.e. recessions of various intensity. The present moment, i.e. the end of 2008 and 2009, is characterized by the crisis conditions of business operations and thus it can be stated that we are living and working in period of crisis. Crises are probably the first global problems affecting everyone and especially the undeveloped and transition countries. It leaves deep consequences on every field of economy and society. However, it is also a great enemy to democracy because it creates conditions that the autocratic way of management is introduced in crisis, which in time grows into dictatorship and dictatorial systems. The reason is that the causes of crisis are rarely searched for in democracy, behind which "a tough hand" should be introduced in which the will of everyone will be subordinated to the will of one. The unsustainability of the mentioned is not difficult to question because the crisis arises also out of the lack of democracy, i.e. ideas and innovations and anything else is the consequence. One should have in mind that the last crisis is much more dangerous than previous crises, because they were partial and related to particular countries with various intensities. Today's crisis brings into question the survival of millions of people on the global level, meaning that it takes on the characteristics of personal temptations and brings to numerous stressful situations: due to losing a job, decrease of personal incomes, inability of employment and losing perspective, i.e. hope and belief in better future.

The global economic crisis has not originated by itself, but it is the result of specific actions, i.e. absence of actions. It originated in America as the most powerful country in the world, in the country having the most competent management in the world and in which the management as a profession occurred first and developed the fastest. Most people in the governments knew about the disproportion between increasing needs that have come to greediness on one side and limited possibilities to satisfy the needs. The top management of large corporate organizations was pressured by the stakeholders' demand to provide profit on short term, not choosing the ways to accomplish it. Most of the corporate organizations wished something to change, but that nothing

would change in essence, so that it can be stated that the management profession is partly responsible for disturbances on the global level. Thus, for the latest global economic crisis, the management bears responsibility, first of all of financial and banking industries.

The third pillar the stability on the national and global level is based on is law and legal institutions. Any business, i.e. life and work happens in a legal ambient that can be favourable or destimulating for business and operations. In past, law, medicine, accounting have been considered for important subjects in private sector, but with public liabilities. The lawyers are still called "court officials", accountants "company's conscience", management as the brain of the company. All stated sciences have operated for the system in which they were employed, but they have also thought on the public interests. However, the institute of law in America, but in other developed countries as well has shown its weaknesses. Many rules having been applied since 1930 still appear efficient, but the problem is that within the last 15 years they have been dismembered and as such they are not consciously adjusting to new conditions of operations. The only highly developed country is Canada, which was holding best in the crisis, because it kept the legal regulations with the higher level of regulation and control of indebtedness. It has had several simple regulatory measures and the whole system has relatively well overcome the storm.

In order that the law and legal institution would be in the function of business and efficacy, it is necessary to perform a fundamental revision of the existing solutions. There are legal "gaps" in the laws enabling the companies to acquire enormous financial wealth. Numerous laws from period of Clinton should be re-examined and instead of now governing deregulation, control mechanisms should be introduced, or the existing should be applied. The President Obama, two years before he entered into the White House, has pointed out the need of large reforms of legal system and regulations, which besides the reform of the health system is his priority.

Any economic crisis generated or it is the cause of other crisis. At the same time it is the crisis of moral, which is perhaps the core of our problems. This is important to mention, because the focus is given on the economic crisis in modern conditions. The fact is that the economic crisis is not the cause but the consequence of other crises, primarily of the crisis of idea and innovation that is firstly manifested in the sphere of economy. Most of the things that have happened during the last decades throughout the world have been legally allowed. Bankers did what law allowed them, or what law did not forbid. Politicians did what they considered to be accorded with their political determination. However, precise analyses show that great number of people behaved immorally and irresponsibly. Not one system can be sustainable and not cause crisis, if ethics and system of values are not respected which are based on the moral dimension.

Indeed, the world will not come out of the crisis by applying classical concepts and techniques that have lead to the crisis. It seems to be necessary to revise law and legal institutions on the national and global level, re-examine the principles of functioning of the economy and corporate management of large corporate systems of the world. It is shown that the modern regulatory system is inefficient, that the economic dimension and interest is over-dimensioned and that the corporate management is not capable, besides the corporate interest to express and articulate the social interests and social responsibility for the environment destiny. Merciless competition and struggle to satisfy the increasing needs and of higher quality independently from the possibility has lead to neglect of fair-play relations.

According to the stated, the purpose of 1<sup>st</sup> International conference LEMiMA 2009 is to consider the modern business problems on the principle of holistic-systematic concept and along with the integration of law and legal institutions, economies and management as the three dominant sciences, participate in their solving. It is proven that the modern, i.e. business in times of crisis is mainly deliberated partially from the point of view of law, or economy or management, which does not provide quality solutions for increase on the national or corporate efficacy. Thus, the sole concept of The Conference is set so that the modern (crisis) business is not considered partially and separately but that the legal, economic and management profession "hear out" each other, so that through the synergistic activity and influences quality answers would be given for new challenges and the crisis condition. In that context this Collection has been prepared, which also will not be divided according to the topical integrities and for the purpose of promoting the holistic-systematic approaches in researches and solving of the complex phenomena.

**Welcome to 1<sup>st</sup> International Conference LEMiMA 2009, in Sokobanja (Serbia).**

**Sokobanja, 25-27.09.2009.**

**CHAIRMAN OF SCIENTIFIC COMMITTEE**

  
**Prof. Dr Života Radosavljević**



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## INTERNATIONAL INVESTMENTS AS A CONDITION TO GET SERBIA OUT OF ECONOMIC CRISIS

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***Summary:** In this paper we will try to talk about international investments as a condition to get Serbia out of economic crisis. Crisis on international financial market has many causes, and they come from its most sensitive segment of currency market. The basic role of international market is to set relations between financial markets of some countries. Financial market is a place where offer and demand for financial insitutions meet which trade with financial instruments. World economic crisis is a very complex process and becomes an object of research of many researchers from different scientific disciplines. Many scientists and experts have dedicated it attention and wrote great many papers about causes and consequences of the crisis and that trend lasts till today. World economic crisis is a consequence of a difficult social crisis, crisis of morale, crisis of democracy, crisis of valuable system, crisis of international institutions etc. Direct foreign investments are rightfully considered powerful potential catalyst of business growth. It was proved that for usage of their positive effects, it is the most important that domestic business has capability to absorbe it, so that they show direct and indirect effects in full in developed countries. Their contribution is growing in countries in transition, where it is seen as important and somewhere as crucial. Only partial usage of their positive effects can be explained by character and directions of investment and characteristics of countries in transition. Effects of foreign direct investments in Serbia have been modest up to now because they were humble, and because of directions of investment and condition in business world.*

***Key world:**crisis, international investments, market, developing policy, business growth.*

### 1. INTRODUCTION

**World economic crisis** occured somewhere in 'wide world'. At the end of 2008. Serbia became the part of that world and then world financial crisis occured here. Serbian market of capital was stricken or Belgrade stock exchange.

We all witness incredible falls of almost all valuable papers. Our market depended on foreign investors in great deal, and biggest part of total daily turnover was made by physical and legal people who are not citizens of Serbia.

There are many causes of crisis. 'The main cause is termination of gold cover for dollar that happened in 1971. Dollar had cover in gold. Mankind that has dug out one hundred and fifty tons of gold, transferred it in 4.500 billion dollars'.

That is the total amount of gold, as basic measure of value. Total quantity of gross domestic production on the planet is 60.000 billion dollars. Total amount of valuable papers on stock markets is 670.000 billion dollars. All in all, more or less, that comes down to printing of papers that are sold on stock markets.

Oil is bought for those papers and all necessary to complete the system.

It is undoubtable that crisis had a negative impact on economic performances in Serbia. There was decrease of export and import. It is realistic to expect that unemployment in 2009. grows. The growth of salaries in private sector should not be expected, while it is more realistic that salaries will decrease. Serbia might have positive effects of world economic crisis on middle and long term seen through the growth of foreign investments, which could lead to growth of production, export, employment, salaries and living standard. However, in order to have positive effects, Serbia must fulfill the task that is placed in front of her by foreign investors, and those are: efficient protection of ownership rights and foreign investments, development of better infrastructure, cut on corruption, increase of efficiency of administration, etc.

The relation of Serbia to world economic crisis is different and almost not defined.

## **2. WORLD ECONOMIC CRISIS IN THE WORLD AND IN OUR COUNTRY – CAUSES, CONSEQUENCES AND POLICY TO OVERCOME IT**

**Crisis:** What is going on? Why are so many people fired in the world? What is the problem? What kind of crisis is it? Who made the crisis? How much will the crisis last? Where is Serbia in it? What can small man do?

These are the questions that trouble ordinary man, no matter where he lives. The problem is if that small man lives in Serbia. He does not understand anything. And no one is trying to explain anything to him. In professional public there are no disputes about world economic crisis. Individuals think that it is not our business, like Serbia is on other planet. World economic fire has spread and threatens to completely destroy world economy, while some think that Serbia deeply believes that it is not its problem. However, my opinion is that Serbia is threatened by an economic crash.

It should be mentioned that, because of incapability of leading majority to make consequences of world economic crisis easier, there could be a social revolution. So, 'it should be emphasised that economic situation is unbearable, specially if we know that 430.000 people has salary less than 13.000 dinars' [10].

Firing people happens every day, decrease of industrial production is getting bigger and bigger. It should be emphasised that investments from abroad have drastically decreased and that it will influence economic crash in the state and create drastic decrease of living standard. It is expected that world capitals will be blocked.

It is expected too, that in the world over 60 million people will be fired, because world economic crisis that knocked on the doors of all states in the world, is the biggest in the history of mankind and has huge consequences. It is necessary to find a special package of measures by the Government of Serbia to stop consequences of world economic crisis. World economic crisis lead to the drop of value of stocks on Belgrade stock exchange.

However, this condition can be a great opportunity for brave investors. Purchase of stocks of the stock market is considered the riskiest investment, and that is additionally strengthened by the fact that most stocks on Belgrade stock market in the last period are loosing on the value. However, this condition of the stock market for the bravest investors can be a chance to make profit. The owners of the stocks on the Belgrade stock exchange have been watching for months how their stocks go red, because their value decreases. It has happened since the effects of the crisis begun to be felt, and as Petar Spajic, consultant on the Belgrade stock market says, bad climate on the basis decreases the price of stocks for companies that work well.

During 2008. on the list of so called winners, no stock has marked positive change in relation to the end of 2007. Some companies had positive results in the previous period. General negative trends that rule the market lead that those stocks, note decrease of value. Some prices of stocks are a chance for a good profit, but only for those that take the risk and wait for the end of crisis.

Some analysts agree that in this moment the riskiest stocks are of financial sector, while the smallest crisis is expected in industry of food. Industry of food and pharmacy are considered as less risky in times like this, because decrease of turnover are not so big as, for example, in metalurgy.

No one in this moment can say with certainty how long the crisis will last. Professor Stiglic, the guest in Belgrade, said that exit from crisis was possible only in 2011. Russian expert team expects the crisis to end after 2020.

### **Mechanisms of the crisis:**

Problem occurs in the moment when more trustees can not pay their mortgages. Because mortgages rise on the side of offer and too much demand the movement of prices of real estates will go in the other direction, the prices of real estates will decrease.

### **Withdrawal of investors:**

1. bad assets in balances of banking conditions,
2. withdrawal of investors when risks grow,
3. because of low liquidity financial insitutions have to sell their assets,
4. because of crisis there are not enough investors to buy the asset
5. because of low demand there is decrease of prices and banks are forced to sell assets on price which is lower then the price of purchase which leads to losses,
6. bilances of banks is worse, which is additional reason why investors withdraw their means.

### **Withdrawal of capital:**

1. bad asset in balance of bank,
2. because of huge sale to trustees and lack of regulative, banks have small ratio capital, and high leverage,
3. because of the crisis banks have to sell assets (decrease of leverage),
4. because of crisis there is a small number of investors who want to buy assets,
5. there is a decrease in price of real estates and bank sell real estate under price,

6. as the asset is sold under price, there is bad capital of ratio, which is additional reason for sale of assets.

#### **Dynamics of the crisis:**

The occurrence of the crisis leads to possibility that banks will not be solvent which deepens the crisis furthermore. The increase of risk leads to decrease of amount of inter-banking loans. Also, occurs flowing of crisis from the USA to Europe and further to other developing countries. In the end, main effects hit population and companies through existing and future loans because of increase of interest rates and decrease of amount of credits' [8].

Financial crisis in its first wave did not importantly hit financial system in Serbia. The National Bank of Serbia has led restrictive monetary policy for years so that sudden growth of credit loans would be avoided. Banking system in Serbia proved to be stabile, banks were capitalized and their capital ratio is much higher than in the USA and EU. Banks were very careful when they had to release credits which influences on healthy balances. Banks in Serbia are much more liquid than in the countries of the EU or the USA, so banks overcame the impact easily when people started to withdraw savings in October because of decrease of trust in financial system in the whole world which occurred because many banks bankrupted in the USA. That is the reason why the Government of Serbian and National Bank of Serbian did not have to pump in fresh money in financial system.

The problem will occur in balance of payment in 2009. Serbia has had deficit in current part in balance of payment for many years because import was higher than export. That deficit was financed by sufficient in capital part of balance of payment mostly by credit loan of banks and companies from abroad and direct foreign investments. Because of recession that captured leading countries in the EU, we can expect the drop of export that will increase deficit in balance of payment, while it will be harder to find creditors who are ready to give credits and investors who are ready to invest in Serbia. It is almost certain that credits and investments will be smaller..

### **3. INTERNATIONAL INVESTMENTS IN SERBIA**

#### **1. International direct investments (IDI) and process of globalization:**

International investments are investments of capital in foreign country in order to make profit. These investments can have more forms:

- Public investments by the state,
- Private investments of individuals and groups, and
- Investments of the companies.

#### **2. Foreign portfolio investments - FPI:**

Here we are making a clear difference between portfolio and direct investments.

International portfolio investments relate to purchase of international stocks, or other valuable papers in expectation of income. Income is expected in dividend, interest or capital gain. The control over the companies in which you are investing is not expected.

International direct investments opposite from portfolio investments demand hiring management in business of the company in which we invest. Purpose is control of business and approach to foreign markets, higher sale abroad than through classical exporting businesses, approach to international sources and partial ownership.

International investments grow faster than world trade, and portfolio investments grow faster than international direct investments. The USA, Japan and EU give over 80% of international direct investments and portfolio investments. Main actors in international direct investments are numerous companies (more than 40.000 companies). The companies judge regions more and more, and not just countries as area for investments which are attractive for international direct investments. The countries in which they invest, are interested in business growth and employment, for better usage of some sources and for increase of the quality of products and services. Of course, they exist to regulate the flow of capital demanding partial local ownership of the asset of the company.

**Lazar Kekic** – Manager of the department for Southeastern Europe in the London magazine 'Economist' says: 'It is hard for anyone to predict the depth of crisis, but for now it is not striking the rest of the world' meaning countries in transition. 'However, if the crisis lasts, it will not be the case. The sincere answer is that no one really knows. Socialism of losses and nationalization of damaged banks and financial companies will not do any good. The state can take over the whole business, but the problem will not be completely solved. The problem is not in overtaking of bad companies, but in reduction of dollar printing. If we get foreign investments the problem could be solved in much easier way and more successfully.'

State policy can influence on the lack of perfectness of the market and international direct investments (IDI). However, we witness that there is less investments in the world and in Serbia. More intensive decrease of investments in the world will definitely happen if there is decrease of price of petrol and gas on world market,

which will decrease investments from the countries importers of the petrol. If the price of petrol and gas stays on low level in following period, that could have a positive influence on the business in Serbia which is importer of petrol. The decrease of the price would affect decrease of expenses of business and decrease of prices of products from Serbia on foreign markets which would influence competitiveness and increase import.

Because of crash of market of real estates in the USA and problems the companies in that part of the world confront, it is realistic to expect that direction of investment shifts to other countries. In that new division as new destinations for world investments, developing countries will take part. If Serbia in the following years succeeds to reform its economic system and make institutional infrastructure that can be competitive with developed countries with intensive world to train workers, it is realistic to expect that there will be important growth of foreign investments.

In order for Serbia to decrease negative effects, and at the same time use potential opportunities made by change of world economic crisis, it is necessary for creators of economic policy to take many measures. Some of the measures have been already reached: increase of the level of guaranteed deposits from 3.000 to 50.000 euros, termination of taxes on profit from savings and taxes for capital income. However, experience shows that any expansion in fiscal policy influences that growth of export and worse deficit and growth of inflation. Unfortunately, 70% of expenses of the budget goes to social expenses (salaries, pensions, social givings). The state should to the end of 2009. set more money for support of business of the companies through the Fund for development of Serbia and make business easier through active role of Guarantee fund. Also, state must set away money to pay the debts that it has to private companies.

Policy of income is necessary to decrease public spending that is too big for the current level of development of Serbia. With this policy the Government of Serbian is trying to keep the growth of salaries in 2009. in order to avoid increase of demand that would lead to growth of import and inflation. State has to be strong and stay firm to the pressures of the Unions of employees in state sector.

Except these measures, the state must continue the process of economic reforms and finish making institutional infrastructure in order to create good business ambience stimulative for growth of businesses and flow of foreign investments.

Having in mind the rold that FPI had in the process of transformation of businesses of once modern market business, attraction of foreign capital, is one of the priorities of Serbia in the following period. Serbia, as the last in European countries that is coming in, has the advantage to use the experience of other countries of effects and determinants, has an aim to show positive but also negative effects (which are often forgotten), during the entrance of countries in transition in the previous period, and certain recommendations about direction in order to use positive and minimize potential negative effects.

Basic aim of countries in transition that is harder to achieve is making stabile, long-term business growth which will be based on increase of investments, improvement of technological basis of these countries and increase of their products on international market. FDI will have important role in fulfillment of this aim. FDI can contribute process of transition directly, through flow of capital, transfer of technology, manager, production know-how, sale channels for domestic companies, and through strengthening of competition and process of restructuring in business.

' World bank gave Serbia a credit in 2007. of 192.5 millions of dollars for five 'operations' that should improve living conditions in Serbia. According to the statement of the Board of directors of that institution, with headquarter in Washington, the accepted projects will improve Bor, competitiveness of agriculture, protection of floods, safety on roads, as will energetic situation in schools and hospitals.'

For development of Bor area they will give 43 million of dollars. First it is most important to solve ecological and social questions that come from restructuring of mining sector, as well as improvement of business growth and opening of new working places... For improvement of competitiveness of agricultural products of domestic and foreign market we have a loan of 17 millions and credit that we have to return of 4.5 million of dollars. Next 50 million is invested for defence of floods of Dunav, Sava, Tisa and areas of Tamis and Velika Morava...

50 million more is planned for 113 kilometers of regional roads. The most important is to improve safety in traffic by removal of 'black spots'.

With 28 million dollars, the World bank is included in program of repairment of energetic situation in hospitals and schools. The system of heating in Clinical centre of Nis is specially mentioned [5].

#### 4. CONCLUSION

In generally bad occasions, in which Serbia has been for a long time, it is hard to realize successful development policy. One of the ways out of hard situation is seen in stronger attraction of foreign investors (investments of the state, individuals, groups and investments of the companies).

There are results of many researches of effects of FDI on domestic business and effects of policy of improvement, so there is a recommendation 'for good management in field of FDI policy, to see package of

measures of investment chances as a total policy of the country and make every chance usable under the same conditions for all investors, foreign and local. These urges should be focused especially to those activities that create the biggest potential for flowing, including connections between foreign and local firms, education, training R&D.' (Blomstrom, M., and Kokko, A. (2003), „The Economics of Foreign Direct Investment Incentives“, NBER Working Paper 9489, Cambridge, MA: National Bureau of Economic Research, 21.).

Since our country has a low financial capacity, the low level of development of business, infrastructure, existing monopoly, we can say that the directions for Serbia to exit economic crisis, are strengthened international strategic investments in domestic companies, development of traffic, development of services and flow of FDI in Serbia.

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## PLACEMENT OF TOURIST PRODUCT OF RS FROM MARKETING PSYCHOLOGICAL ASPECT OF CONSUMERS

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**Summary:** *In modern conditions of marketing development, particularly of marketing and psychology, the highly important aspect is the one of the consumers and their view of the world. In other words, completely respecting and implementing the most important goal of modern marketing is meeting and satisfying the consumers, satisfying their needs, requirements, desires and expectations. This paper, "Placement of the tourist product of the Republic of Srpska from the psychological aspects of consumer marketing," is trying to orient Republic of Srpska tourism in terms of promoting the tourist offer of the same region. The research we conducted showed the interest of the population from the region from the aspect of the Republic of Srpska tourist offer consumers. Due to the difficult economic situation in which our country is found in the last years, the tourist offer is not sufficiently developed, caused by the multitude but not enough used tourist offers. In this paper we show how the consumers' wishes and proposals (which we obtained by interviewing) can create unique, modern tourist offer related to the Republic of Srpska. The aim of this paper and research is to modernize and improve the tourist offer related only to the territory of the Republic of Srpska that will be interesting to locals and other tourist visitors.*

**Key words:** *marketing, tourism, marketing, psychological aspects of economic development.*

### 1. INTRODUCTION

The Romans used to use the word "*personality*" primarily as an expression for "a mask", i.e. the masked man, and later on it obtained the meaning of a role or character in the comedy. The complexity of the personality phenomena is reflected in its multidimensionality.

For many times has the concept of personality been tried to be defined and comprehended by numerous psychologists and sociologists, from the very beginning of development of the mentioned scientific disciplines. According to Goldon Allport, the personality can be defined as a set of "what we are" in the sense of genetic heredity and our previous experience (the personality is = genetic heredity + previous experience) [1, pp. 31].

*Psychology* is searching for the answer by studying the psychological organization of biophysical and psychic attributes, whereas *sociology* is searching for the answers within society and ambient.

*Marketing*, as the science on personality as well, studies the personality by applying also anthropology, and psychology, sociology, then philosophy, economy, i.e. the behaviour of a personality as a consumer, entrepreneur, marketer, marketing manager and accordingly represents the broadest approach of studying human behaviour and the concept of personality in general. It is important to define not only the basic concept of personality but also the behaviour of buyers, i.e. users of services in the sense of how they behave, why do they behave in certain way, and how to obtain the results on their behaviour. And all of it together should serve us for further analysis and adjustment to situations and products, to wishes and demands of the consumers, users of tourist offers as well as of their preference.

The consumer as a person represents a unique, dynamic organization of biological, physical and psycho-socio-economical characteristics comprising his needs, wishes, goals, requirements and expectations as well as the value orientation.

"Marketing psychology or psychology of market, as the newly-dated terms in psychology, comprises all those segments from general psychology related to examining the consumers' behaviour in the process of decision-making on shopping, studying the consumers with regards to their demands for the purpose of development and forming of the products and the packing, designating the names of a company and the trade mark of the product, determining the level of selling price, arranging the products in a shop, creating the promotional constants and



promotional means, including the activities related to examining the employees, marketing intermediaries and the total marketing publicity" [3, pp. 88].

"The purpose of the research on the consumers' behaviour "is to ascertain the needs, wishes, attitudes, comprehensions, opinions and motives as the determinants of the consumers' behaviour, i.e. to predict (anticipate) the consumers' behaviour on the basis of available cognitions and thus to understand and explain the behaviour" [8, pp. 175].

Respecting all the preferences of the consumers, we single out as especially important their satisfaction-contentment, as the most important and the most essential goal of marketing from the point of view of psychological-marketing perspective.

In the paper "Placement of tourist product of the Republic of Srpska from marketing psychological aspect of the consumers", it has been tried to orient on the tourism of the Republic of Srpska in the sense of promoting the tourist offers of the mentioned region. The conducted research has shown the interest of the population from the region of the Republic of Srpska from the aspect of the people as the tourist offer consumers. The survey has been conducted among 100 examinees based on their age, education and financial structure. The survey has been of the combined type and two of the most important questions have been related to the cognitions of the examinees from the Republic of Srpska to specify their concrete suggestions regarding the tourist offers in the Republic of Srpska, as the domestic region, specifying what is the most important to them.

## 2. PERSONALITY IN THE MARKETING FIELD

The personality structure, explained according to numerous eminent sociologists, starting from the classic ones to the modern theorists, form the following psychological manifestations:

- Temperament,
- Character,
- Capabilities,
- Skills,
- Interests,
- Attitudes,
- Motives and
- Needs.

In this case, from the aspect of marketing psychology, we will be interested in the wishes of consumers, especially of the tourist services consumers in the context of the tourist offer related to the Republic of Srpska.

The basic guidelines generally related to the personality structure are the following:

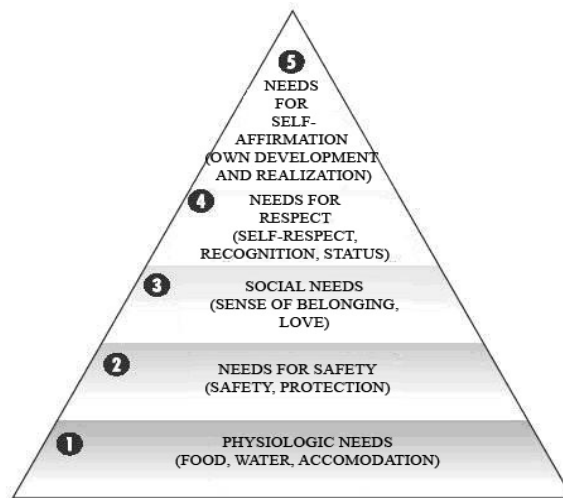
- **The interests** are such categories implying more or less permanent directiveness of man's conscience and activities to certain contents. The interests can be diverse. According to the intensity they can be- powerful or weak, according to duration- permanent and passing and they can also be- active and passive.
- **Motives** are thus the factors leading to certain activity; they are the drivers of our activities. These drives differ and thus we can speak about the following kinds of motives: the biological motives (the motive of hunger, thirst, parentage, sexual, the motive for sleep, rest and oxygen), the social motives (the motive of sociability, connectivity, self-affirmation, aggressiveness, conscience as the motive) The motives drive the consumer to action. The need occurs first and then the motive and the consumer enters into the motivation cycle wherein he/she is trying to come to the balance. The motives are mostly related to another concept, and they are the needs. Even the marketing is directed towards satisfying human needs so that the needs are also a part of the issues marketing is dealing with. Generally, **the need** represents the sense of lack followed by a wish, urge to remove the lack. In time the research on human goals, motives and motivation in the process of settling the needs has conditioned **the theory on human needs by Abraham Maslow** [5, pp. 128].

This theory is highly important, even though it took the critics by some sides, as any theory tending to introduce changes at interpretation of the same concepts. Thus the needs condition and drive the consumer to action and, in our case, the consumer searches different offers of the tourist economy. The goal is to satisfy their needs for domestic tourism, i.e. departing and visiting places in the surrounding countries and of the Republic of Srpska region. In any case, this is how the need hierarchy looks like according to Maslow [3, pp. 94]:

It all means that origination of human needs should be observed as a process consisting of the inborn and inherited needs, i.e. inborn and the attitudes acquired during the life time and development.

Actually, Maslow's hierarchy of needs speaks about the dual meaning. Therefore, this pyramid has got two meanings, and they are that the order is as presented but the direction is opposite, i.e. here the most significant are physiological needs, as the basis for development of the other needs, so that, finally, love, feeling of belonging, respect from other people can be accomplished, but the respect towards one self as well. However, the most important are yet the needs at the top of the pyramid, therefore, self-affirmation in this case. The irony

is precisely in the fact that it cannot be reached without satisfying the primary needs, like to satisfy hunger, to put on some clothes if it is cold, because if those conditions are not fulfilled, the person cannot be what he/she actually is, cannot express him/herself in the light in which he/she would experience, for example admiration and respect.



**Figure 1:** Maslow's hierarchy of needs [5]

### 3. CONSUMER AS A PERSON AND CONSUMER'S BEHAVIOUR

The consumer as a person represents a unique, dynamic organization of biological, physical and psycho-socio-economical characteristics comprising his needs, wishes, goals, requirements and expectations as well as the value orientation.

The goals and tasks of marketing related to personality as the consumer are multiple. Among other, they help the consumer to hierarchically organize his/her preferences and to become loyal to the name of the producer and his brand of product.

Therefore, the most important is the consumer's satisfaction and, having this in mind, it would be the most important and relevant goal of marketing and the whole psychology of that field.

Afterwards, marketing should accomplish the advantages related to the competition and to realize profit for itself. The profit is discussed on at the end of the total program and mission of the marketers. The satisfaction treats the consumer as the person that, by purchasing a product, i.e. using services, is solving his/her problems. Not only that the consumers buy the products and use only the services, they are buying **the expectations**, and not the physical things.

As already mentioned, the consumer is found under the influence of biological factors, i.e. biological characteristics and psychic processes in that way creating a certain image on a product, i.e. service.

In order that the consumer determines, it is necessary to point out that his perception influenced by the so called marketing-mix. The marketing-mix implies [3, pp. 315]:

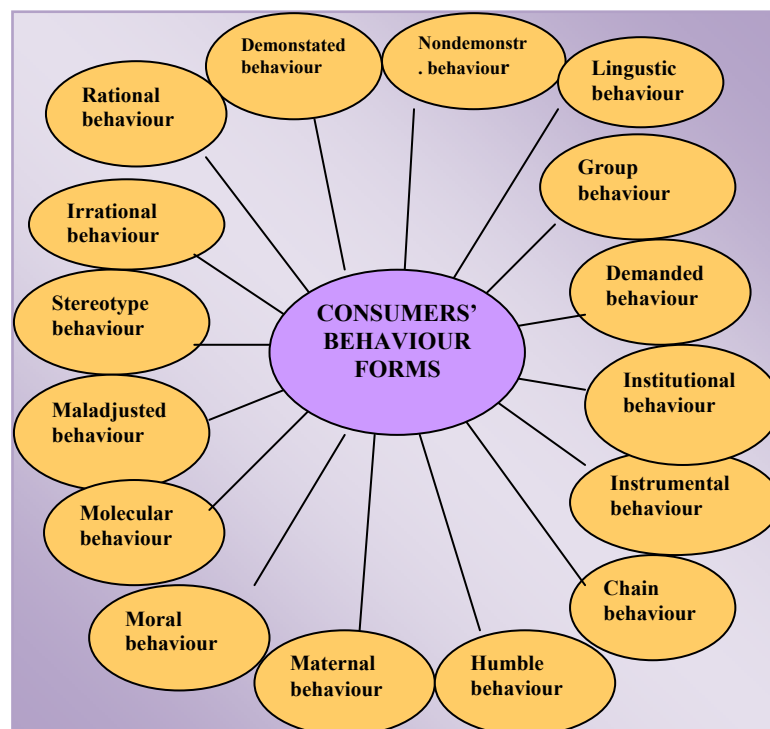
1. Price
2. Product
3. Place
4. Promotion

The marketing-mix is abbreviatedly called 4P

Regarding the profile of consumers it is possible to derive several criteria for the classification [3, pp. 300].

1. According to demographic characteristics:
  - inactive buyers- the older consumers that do not like shopping, but would like a fine service
  - active buyers- enjoying shopping
  - social buyers- loyal to a shop
  - pedantic buyers- they are buying based on catalogues
  - rational buyers- comparing prices
2. According to the motives of shopping:
  - consumers loyal to a trade mark- they behave according to their habits
  - rationally motivated consumers- they behave based on the cognitions
  - economical consumers- they are oriented towards the price
  - emotionally motivated consumers- under the influence of symbols, country of origin

- impulsive consumers- they behave based on the esthetic properties
  - unmotivated consumers- the new consumers not having decided and not having stabilized their behaviour
3. According to the attitudes towards the type of shop:
- economical consumers- they are guided by price, quality and range of products
  - personalized consumers- they attach importance to shop assistants behaviour, relation and treatment
  - ethical consumers- they prefer small independent shops instead of department stores
  - apathetic consumers- they behave disinterested
  - recreational consumers- they experience shopping as fun.
4. According to the type of information they need for making-decisions during shopping:
- creative consumer- spending most of his/her time looking for information
  - quasi consumer- does not deal with shopping, they leave it to other family members
  - prepared consumers- they first gather information and then they enter into the selling premises
  - routine consumers- they know what they want and do not have any need for additional information
5. According to the criteria of the shopping volume:
- large buyers- they dispose of above-average incomes, they are younger than 45, they buy in late afternoon hours, they spare one day of the week for shopping at the supermarkets
  - true-bread buyers- they do not like to shop due to supposed crowd in shops and supermarkets
  - local buyers- they buy more often, spend little, they are either older people or people of poor material status
- Further on, a special criterion should be pointed out for one more classification, and that is the criterion of loyalty to the trade mark of a product, name of the producer or to shop or a restaurant; those consumers or buyers could be:
- present buyers- those that have remained loyal towards the trade mark of a product,
  - past buyers- those that have abandoned a certain trade mark of a product,
  - competitor's buyers- those that with efforts and innovations could become consumers of a certain trade mark, product and accordingly, the company creates new marketing strategy, and
  - non-existing buyers- those that are not consumers.



**Figure 2:** Consumers' behavioral forms [5]

### 3.1. General factors influencing on the consumers' behaviour

#### Analysis of consumers' characteristics:

- character attributes- represent biological and inherited characteristics according to which people are discerned among themselves;

- association- it is a quality of psychic phenomena, notions and feelings; herein will occurs that in time creates habits for some behaviour or deviation from it;
- perception- it represents a psychogenic process, i.e. the perception by means of which the consumer becomes aware of things around him/her or of some certain object.

#### **Analysis of products' characteristics:**

##### *Product's dimensions:*

- product's core (it is related to the essence or main benefit of the product),
  - formal product (brand, style, trend, quality, packing and similar), and
  - expanded product (pre-selling, post-selling services, selling promotion).
- Minimizing the risks (functional risk, psychological risk, psycho-social risk, economical risk, and combined risks).

#### **Analysis of the ambient situations:**

The consumer is also influenced by the ambient, i.e. the external factors, as is in the nature of things and psychology of the world's functioning, and the buyers are especially influenced on:

- The ambient characteristics, values and value orientations
- The state in the global system, as well as of the subsystems within the system, i.e. the social, educational, technological, financial aspects and similar.
- The state in the economics system- it is very important especially as the aspect of ups and downs

#### **Analytical factors:**

Analytical factors imply the classification on the internal and external factors [3, pp. 308].

The external factors are outside factors and during their establishment the following analyses are used:

- geographic determination- area, climate, traffic population density, consumers' centers, national holidays and similar.
- demographic factors- number of population, age structure, gender structure, educational level of the population and similar.
- macro-sociological analyses- classes, population stratum, families and households, life-style, influence of culture and similar.

The internal factors are inside factors, they are attributed to mental state, personal characteristics, features, attitudes, goals and opinions. Therewith, the habits, beliefs, opinions, learning, goals and motives are formed at the consumers.

- economic factors- incomes and expenses of the population, tendency towards consumption and saving, household, credits, price fluctuations
- sociological components- social classes, social layers, cultures, religions, nation.

## **4. IDENTIFYING THE GOALS AND DETECTING THE SATISFACTION OF CONSUMERS**

One of the most important questions present at development and launching of a product on the market is identifying the goals and discovering the satisfaction of the consumers. By a product, service, item and ideas the consumers can satisfy their needs, remove wishes, solve problems, satisfy certain demands, and all of it is happening within the set hierarchical organization of the consumers' preferences.

The risks the consumers' face everyday are the following [4, pp. 147]:

1. **functional risk**- it is related to the product's characteristics regarding the technical or functional properties, price, program of services, etc.
2. **psychological risk**- to the expected reactions of other people that the consumer knows and to the opinion of which the consumer cares;
3. **psycho-social risk**- or the risk the consumer exposes himself before other people from his/ her ambient, the ones the consumer does not know but cares of their opinion, i.e. what someone will say about his/her taste;
4. **economic risk**- related to the question that the consumer poses to him/herself in the manner whether it was worth buying something and whether it is valuable to him/her with regards to the amount that he/she should pay for it.
5. **combined risks** - in the sense of mutual combinations of influences of at least two of the above mentioned risks.

planning of product's quality is possible to conduct only after the goal is determined.

At the same time, during studying **the psychological factors** determining the behaviour of people and general theory of buyers' behaviour, it has been ascertained that main phases of the process of citizens' shopping are [4, pp. 148]:

1. cognition of problem,
2. looking for information,
3. alternatives estimation,

4. decision on shopping, and
5. behaviour after the shopping.

The comprehension of quality in the chain of participants, starting from the satisfaction of employed and satisfaction in the chain of products distribution, should not only be observed from satisfaction of end consumers, but of all the participants, starting from the smallest ones participating in the creation and to the ones assisting to delivery of the quality to the end-consumer.

The product's quality should make the end consumer satisfied, starting from three basic groups of characteristics of quality [4, pp. 150]:

1. **Basic characteristics** of quality are the one the product "tacitly" possesses, and the ones the consumers will not mention in the phase of research, but they will be deeply dissatisfied if they are not fulfilled. However, they alone are not sufficient to make the consumer satisfied.
2. **Expected characteristics** are the characteristics the consumer of the product is aware of, wants them and expects them from the product, regardless that they are not necessary.
3. **Surprising characteristics** represent the positive characteristics that should be ascertained by the producer in the phase of research of the customers' satisfaction.

## 5. TOURISM IN THE REPUBLIC OF SERBIAN

The most acceptable definition of tourism is given by Swiss authors Hunziker and Krapf, and it is the one adopted by Association of Experts of the International Scientific Tourism (AEIST) and it is worded in the following:

"Tourism is a set of relations and appearances arising out of travels and stays of some place's visitors, if by the stay permanent residence is not established and if none economical activity of them is not related to such stay" [7, pp. 10}. It means that tourism is a specific socio-economical problem, characteristic permeation of material and spiritual life, a special component but also a significant factor of modern civilization development.

Types of tourism can be classified according to:

- need for movement (recreational, cultural and combined circulation);
- kinds of motives (marine, mountain, spa, city, manifestational, hunting and other forms of movement);
- means of transport (motor-tourism, nautical tourism, air-tourism, railway tourism);
- season of the year (summer and winter);
- geographic belonging of the participants (domestic and international);
- mobility (sightseeing, transit and residential);
- possibilities of consumption (mass, standard and highly consumable);
- age of the clientele (children and teenage tourism, tourism of old people and mixed tourism);
- sociological (individual, family and group) and organizational criteria (arrangement and liberal) [6, pp. 144].

The planning of the future development of tourism in the Republic of Srpska should be based on: the natural, traffic- geographic, cultural-historical and other tourist values of this country, as well as improving the influences on the consumer awareness.

In the sense, we single out the following types of tourism, as well as some suggestions for their improvement:

**Winter tourism-** having in mind three key factors for winter tourism development: satisfactory depth of snow cover with appropriate duration of the retention, denivelation of ski terrain and satisfactory traffic connections, we can say with certainty that Mt. Jahorina has all of the predispositions of becoming the center of mountain tourism not only of our country but the broader surrounding region as well. Tourists more and more decide to spend their annual holidays on the mountains and during summer period and for that reason the future development of tourism on mountains should be conceived so that the conditions for using the constructed premises in all seasons of the year are provided. The Olympic glow should be returned to Jahorina, whereas on the other mountains such as Mt. Kozara, Borja and Vucja Mountain, it is necessary to construct the missing objects for boarding and sustenance of the tourists, shops for selling the souvenirs and other goods needed to tourists, building the sport premises, various service workshops, cable-railways and ski-lifts as well to improve the quality of traffic routes leading towards these mountains.

**City tourism-** special attention should be paid to the city tourism development. To the city centers come both domestic and foreign tourists and for great consumption of city visitors such kind of tourist movement is highly appreciated in the tourist economy. However, these tourists should be provided by an interesting tourist offer in order that they remain in the place as long as possible, and thereby improve the tourist economy. In city centers it is also necessary to develop and perfect *the cultural-manifestation tourism* that should be basic characteristic of some city or our country and which should differ from other tourist locations. Those special marks should provide public cultural-entertaining events and spectacles of festival character, sport-entertaining shows, various

performances on squares and street, exhibitions and other cultural manifestations. **Congressional tourism** as a segment of manifestation tourism is more and more developing form of tourism in the world and order that it is better developed in our country it is necessary to record all data on one location so that a plan of marketing activities would be made (such as, for example, to keep records on all congresses and gatherings both national and international, to record other congressional offers, to present the congressional offer of the Republic of Srpska, to educate the personnel at the international seminars and similar).

**Balneal tourism**- is more and more confirmed as a stable segment of tourism but for its faster development in our country, first of all, it is necessary to ascertain the plan of activities regarding the recovery and building of premises and contents, to complete and advance medical services, to establish cooperation with various medical institutions, to build the infrastructure, to arrange the boulevards, parks, determine the curative properties and specialize in them, to perform analysis of mineral and curative waters and try to bottle them and offer them to the market and similar.

**Rural tourism**- according to the position of the villages in the Republic of Srpska, preserved natural ambient and domestic food prepared on the spot from local products, can be included into the tourist destinations for which great demand exists in the world. For development of the rural tourism, the villages with good access roads and communal infrastructure should be affirmed. The rural households should also be included into providing services to tourists and by providing boarding, food, engaging riding-horses, enabling tourists to deal with field work during their stay at the village, as well as dealing with selling finished domestic products on the market. It is necessary to build the smaller hotels and restaurants but in the country style so that the natural ambient wouldn't be deranged.

By constructing the highways that will be passing through the Republic of Srpska, **the transit tourism** could be very modern in our country. The characteristic of these tourists is that they like to make a break in their travels and digress from the main road, if they have an attractive area to visit or an attractive tourist offer which should be specific and different from the other tourist offers.

**Hunting and fishing tourism**- the great wealth of hydrological particularities as well the wealth of various wild animals, birds, enables and provides extraordinary possibilities for hunting and fishing lovers. This type of tourism should be included in the tourist offer of our country as much as possible so that the stay of the tourists would be richer and more varied.

Marketing has found wide application in the tourism field. On the tourist market a question is posed how to enable the placement of products and services according to the needs and wishes of the consumers-tourists.

The marketing in tourism is a systematic and coordinated adjustment of business policies of tourist companies and tourist policies of the state at local, regional, national and international level, in order to accomplish the optimal satisfying of needs of certain groups of consumers and thus realize the corresponding profit [2, pp. 21].

The business policy of the Republic of Srpska should comprise the following:

- **The tourist demand research**- in order to provide the adequate offer, first, it is necessary to study the tourist demand. The means used at the tourist demand research are: surveys, questionnaires, interviews, etc. The research in this paper has been conducted by means of surveys.
- **Forming an attractive tourist product**- in order to satisfy the tourist demand, it is necessary to offer the tourist product in the best possible way. During forming the tourist offer it is necessary to present its most attractive elements, attract the attention of tourist of different age, enable as rich as possible contents of the offer, provide comfort to the tourists, incite the wish of tourist to visit the place again.
- **Intensive promotion of tourist product**- at presenting the tourist product by means of different means of promotion: Brochures, postcards, travel records, reports, etc. It is necessary to perform the tourist destination presentation in an appropriate way. By means of presentation, the most attractive issues should be pointed out, the uniqueness of that area, the elements that make it different than the other areas.
- **Propaganda**- promotion does not attract only the existing but also the potential tourists. The promotion can be conducted by means of radio, television, internet, etc. The information on a certain tourist destination should reach beyond the borders of the certain region, it should spread even beyond the territorial borders. Media represent the most powerful means of communication and of spreading information. The information The Internet- the largest number of consumers of certain products and services is searching for necessary information on the internet. The offer of the Republic of Serbia on the internet is rather poor and the lack of authenticity, originality is present.
- **Selling the tourist product**- the clichés of business operations of travel agencies of the Republic of Srpska should be routed because they exclusively offer destinations abroad and they should orient their business operations to recessive tourism, i.e. to attract and bring more foreign tourists into the country.

## 6. THE SURVEY AND THE RESEARCH RESULTS

The goal of this research is to ascertain how well do the examinees know the Republic of Srpska and what do they consider interesting in this region so that the tourist offer could be improved.

We have conducted the researches on the examinees from 18 to 65 years old, that are mostly workers with secondary and high school education. The level of their income ranges from 500 to 1500 KM.

It has showed that the examinees travel once in a year or two years and mostly during summer period. In the survey there were 11 questions specified, but we will elaborate only those questions directly related with this paper.

Figure 3 shows how often do examinees from the Republic of Srpska travel, expressed in percentage.

1. 1% rarely (once in 3-5 years)
2. 55% sometimes (once in 1-2 years)
3. 40% often (2 to 3 times a year)
4. 4% very often (several times in a year)

Figure 4 shows how well do the examinees know the Republic of Srpska as a tourist destination:

1. 0% very little
2. 13% little
3. 75% well
4. 10% very well
5. 2% excellently

To the question what is the most interesting to them in the Republic of Srpska, the examinees have replied that those are the natural ambient and wealth our state is in abundance of.

In the last, and in our case the most important question, the examinees suggest that the rural tourism is included and developed together with our national, traditional cuisine and different folk customs that enrich the tourist offer of the Republic of Srpska. It is presented in Figure 5.

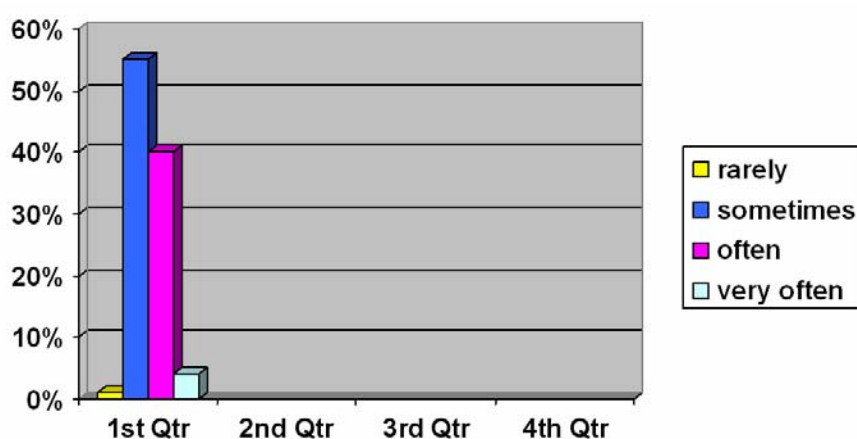


Figure 3: The survey results on the frequency of the examinees from the Republic of Srpska travels

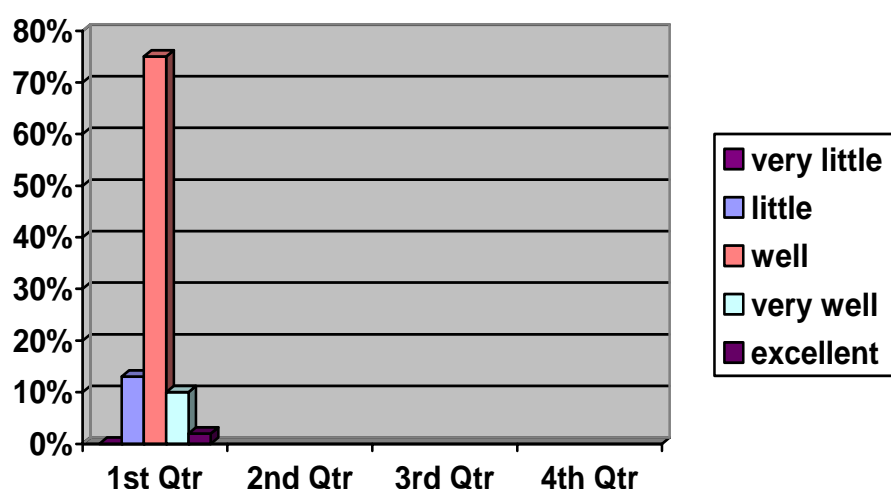
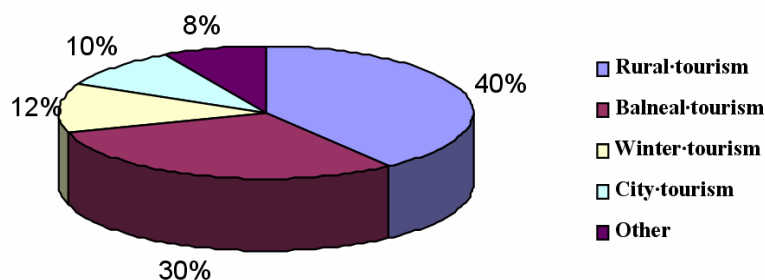


Figure 4: The survey results on the knowledge of destinations in the Republic of Srpska



**Figure 5:** The survey results regarding development of tourism in the Republic of Srpska

## 7. CONCLUSION

Personality, structure and awareness of the consumers play a great part in travels. The essence of tourism is hidden even in human biological nature, because movement is precisely the biological need as well. Also, highly important for tourism is whether the consumer is interested in that type of service, whether it has some motive or reason for using the service? The example for it is our country as well, because for a long time it has been in a difficult situation and the people have not been able to travel, primarily due to the restrictions and also the financial state. After those years our citizens have even greater wish to travel, visit other countries and in general, to move beyond the borders of our country. It will take a long time for traveling for the purpose of rest and relaxation in our country to become a constant habit for most of the citizens.

Therefore, the most important is the consumer's satisfaction and, having this in mind, it would be the most important and relevant goal of marketing and the whole psychology of that field.

In this paper we have discussed on how to offer the best tourist offer- one of quality and acceptable for the citizens of the RS. Herewith it is about what is interesting at our place, both for domestic and foreign citizens. However, we have tended to find out from our citizens what are their suggestions related to creation of the best tourist offer of the Republic of Srpska. The offer relates to revival of the tourist economy for locals. Namely, the purpose is to achieve the improvement of the tourism of this small country according to the demands and suggestions of our examinees that represent the sample of the population. Precisely due to it the research has been conducted and the results have shown that the examinees are more interested in the rural than eco-tourism. The reason for it is that today's fast way of living, permanent stress, worries, tensions, people that rather wish peace and silence, rest and relaxation. Simultaneously with inclusion and development of rural, eco or hunting tourism, the tourist economy of the country increases as well. With regards to other types of tourism in our country and their improvement, first of all the modernization should be performed, the reconstruction and rebuilding of the accommodation capacities and enrich the offer contents with improving the quality of the tourist services.

With regards to the significance the tourism can have, to development of the tourist offer should be approached in even more sophisticated, bold but also in a more organized manner. It is necessary to pay attention to: Degrading the area due to non-planned facilities construction, then organize promotional campaigns in foreign countries for the purpose of attracting the foreign tourists, increase the number of information centers, increase the investments into tourist sector, increase the production and sale of domestic products, in order to develop domestic tourist market as soon as possible.

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## CAUSES OF CRISIS IN THE COMPANY

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**Summary:** *Crisis of the company is not caused only by disturbances in extern surrounding. Many companies have crashed mostly because of their intern problems. Basically, much more important causes are internal. Unlike previous, the company can more easily and efficiently influence on them in order to stop decreasing of the company. Never in practice, no matter what are outer or inner reasons for the development of the crisis, crisis of the company did not occur abruptly and in individual fields and not in all at the same time. Because of that, it is possible to stop crisis on time. Signals of crisis, even the weak once must not be ignored. The health of the companies is similar to that of a human body, so it is better to discover illness as soon as possible and treat it more easily. If the crisis has spread, and in meanwhile no actions were taken, the responsibility is completely on management.*

**Key words:** *causes of crisis, extern causes of crisis, intern causes of crisis, exotern strategies of crisis, endogen strategies of crisis*

### 1. INTRODUCTION

The society is changing all the time and that is a fact. But that is not something that influences business of the company. Business in society is changed too. Companies must take care of the changes and give an adequate answer. Passivity of the company to changes leads it into danger. Then it becomes less competitive and losses its market, untill the existence of the company is in danger too. Such negative changes in the company with tendency of further worse changes are called crisis of the company. Great number of our companies is in crisis. Unliquidity and being too debted are problems of our companies. So, we can say that today we live in the world of changes, but there will be more of them in the future. As a consequence of it, crisis of company in the future is inevitability. So, making a system for detection of changes and warning to danger should be priority to companies who wish to survive in this century.

### 2. CAUSES OF CRISIS

There are numerous reasons why company needs information about the causes of crisis:

- As a basis for evaluation of condition
- For determination of responsibility
- For future removal or fight against crisis on time

Many authors give central importance to analysis of causes of crisis as element of the mark of condition. Some think that without good analysis of causes of crisis, concept of sanation is purely luck. Tight connection between causes of crisis and responsibility gives them besides their national, real function to mark the condition and influence in interest, political and psychological sense. In the crisis of the company there should be obligation of managers to give explanation for hopeless position of the company and to take personal consequences.

It is necessary to find historical causes of crisis, to clear whose fault it is, like it was necessary for the mark of the position. But, one should have in mind that research of the guilt, punishing the responsible and release of causes is hard, dangerous action which demands lot of time. As a motive for analysis of causes of crisis is preparation to stop crisis in scope of preventive crisis management. Some authors recommend, for example,

analysis of familiar crisis cases as very important when company is making possible scenarios for their company [2].

Research of the causes of crisis in business oriented sense refers to finding and showing specific complex causes-consequences, which are good as explanation for the occurrence for crisis of the company. Its influence is obvious; it gives basic directions for seeing and removing crisis of the company and at the same time is of central influence for fight against crisis of the company.

Causes of crisis can be divided by centers of crisis and types of crisis. These divisions are not always with the same meaning, because three defined types of crisis represent basically too harsh division. The same goes for centers of crisis, which are often because of interactive relationships bringing both in question. Although the crisis almost never come from one cause, causes of crisis are classified on centers of types of crisis. So we have:

- Crisis of business
- Crisis of the branch
- Crisis of the house

The company is a case for sanation always when the cause of the crisis is in the house. The fact is that some companies in the branch stay and make profit in conditions of crisis of business, or branch, which shows that problem always comes from inside. The causes of crisis are always those factors which directly lead to case of crisis. They are numerous and complex, so there are many criteria for their classification. According to background of changes they can be divided to endogen and exogen, where endogen and inner and exoge are outer. Crisis of the company is a consequence of lack of ability of the company to adjust to environment. In market business, third of the guilt for bankruptcy are exogen and two thirds are endogen. It is estimated that that relation in our business is different, that is, that one half of guilt is on inner and outer causes. Not all fields of companies are hit by crisis at the same time. But every crisis in the company is a threat for the whole company [1].

One of the characteristics of the crisis is that it has many factors. Crisis has many relations. The consequences of the crisis are on previous level and causes on the next, so during time there appears negative synergy effect, and consequences of crisis strengthen. Crisis occurs in many places. The causes of crisis can be rarely found only in one place. The research of the causes of crisis can go in two directions: quality and quantity. Quantity research has results which can show directions about causes of crisis in the company. But quality analysis gives suspicious data, because from them we can not without doubt identify the cause of crisis. Quality research tries to determine directions to causes of crisis through questioners and reports about individual flows of crisis. There is a problem to collect quality and quantity data, and problem of their analysis.

Practically, we should not stay on causes of crisis for too long, because public charges are not the aim, the aim is for company to function. So it is important, at first, to see only those data about causes of crisis which are necessary for the removal of crisis. It is useless to talk about the one who set fire while the house is on fire! First we have to put fire down, and then look for causes and find mechanisms to prevent company to get in this situation again.

### **3. EXTERN CAUSES OF CRISIS**

Basically, all great changes in the environment can be a reason for occurrence of crisis in the company. As the most important changes in the environment that can have negative influence on company are: high prices on the market of purchase, change in the course of the currency, oscillations, measures in the field of social policy, protection of environment, competition, tax policy, policy of subventions, natural catastrophies, wars and strikes. When a new competitor comes to market or when existing competitors join forces that can be basis for crisis. Technological changes, changes of the structure of the market, and competitors and long-term recessions which have international character are the most serious dangers for the company. There are two groups of changes which negatively influence business: recession and crisis of the branch [1].

Recession is a case when conditions in whole business get worse, but their lasting is limited by certain time period. When that time is out, the situation should get better. Bad condition of certain company in this conditions depends only of connection business of the company and its ability to adjust to changes caused by such action. The companies with better management and companies with better equipment work through this more easily. Action of recession on the company depends on the branch of business in which the company is, since effect of recession is not the same in all branches of business.

Phases of negative influence of recession on the company can be shown through four phases:

I phase

- Unusually great need for products of some sort
- Excessive investments in spreading of capacities

II phase

- After demand is satisfied, sale decreases

### III phase

- Growth is balanced on normal measure of 2%
- Investments are postponed

### IV phase

- Growth is decreased to zero
- Because of claims that previous growth will not be possible, investors have more restrictive policy

Crisis of branch has completely different causes and time dimensions. They are characterized by stagnation, decrease of market, but also market becomes younger. The occurrence of substitutions through new technologies, decrease of demand also cause crisis of branch. Theoretically such occurrences can have unlimited time lasting. But there are events that can stop such a condition and cause new increase of the branch.

Most causes of the crisis of the branch are in: changed needs of buyers (and new market situation), changes of base technology because of innovation, in substitution. Crisis of the branch usually happens in the phase of stagnation of the business. Life cycle of the branch gives basic directions for the situation of that branch. Besides mentioned causes of crisis, it should be said that cause is also connected to growing discontinuity of development of the surrounding. It can be described as termination of familiar trends of developments in almost all segments of surrounding of the company and more often attacks on segments which are traditionally stable. The best example for that is increase of prices of petrol and derivatives in 1973. that many companies did not expect.

General recession and business of branch uplifts on higher level measuring level of business success, and companies which are not capable to fulfill expectations for normal functioning in such conditions without a doubt go down, while others strengthen their position. The first stays below the measuring level and must leave market as a punishment. That is why recession is called 'the moment of truth'. At the time when times are bad for the branch, the company can show if it has internal strength and potential of management. Crisis of the branch, for an individual company does not mean inevitable destiny. Individual capability of the management is the most important for survival of the company in case of exogenous causes of crisis. The weakness of management leads to threats [1].

Successful protection from crisis events includes:

- Seeing danger on time
- Concentration on segments product\market with low risk
- Taking precise attitude about strategic factors, the most important for business
- Usage of technological forces
- High level of operative business, low level of risk

When we talk about exogenous causes of crisis we can name the following:

- Exogenous strategic crisis
  - Changes in the behaviour of consumers
  - Decrease in purchasing power
  - Development of the whole business (recession)
  - Changes in policy of stocks of market participants
  - Season changes
  - Saturation of the market
  - Extreme dependency on one buyer\purchaser...
  - Crisis of the branch (through liberation of import, substitution or lawful measures...)
  - Change of course
  - Creation of cartel, political crisis, military conflicts (because of the problems on markets of purchase because of decrease of strategically important raw materials for industry)
- Exogenous crisis of success
  - Politically induced changes in prices of raw material
  - Strikes
  - Increase of interest rates (increase of demand for credits)
  - Increase of work price because of the higher demand for working force
  - Hurting right on invention
  - Taxes
  - Cheaper price of competitive product
  - Products substitutes
  - Boycotts, wars...
- Exogenous crisis of liquidity
  - Relating name of the company with a person\institution
  - Damaging reports in business magazines
  - Unauthorized release of credit

#### 4. INTERN CAUSES OF CRISIS

Crisis in the house are the most dangerous causes of crisis. Two causes are most often and they are: mistakes of management and lack of personal capital, then bad choice of location or legal form of the company, but also too wide or too narrow productional program, wrong decisions between alternatives produce or buy...

In case of sudden growth or decrease of the company, the existing organizational structure can also become a cause of inner crisis. Crisis can start from the management in case of fight for power\government or cause of personal conflicts. Too much administration can suffocate innovative forces or flexibility of the company. The cause of crisis can be departure of group of experts from the company. Criminal actions (speculations, bribing...) of some members can get the company in serious problems. Intern causes of crisis can have their center, and evolve from any phase in management\planning, organization, control\of functioning of management of the company\purchase, production, finances, people, marketing, research and development [2].

Crisis can occur because of individual endogen causes, and occurrence of additional exogen influences only makes it worse. The special danger is in the fact that for sanation of crisis the highest management is necessary, and it can find out for crisis too late, when there are exogen causes, and the job is harder. The most common cause of crisis is in unprepared management, so the first logical step is firing of management (by the owner)!

Among the internal causes of crisis of the company, there are: low level of productivity, high expenses of production and price of the product, lack of financial control, lack of means, chronic unliquidity, bad marketing and sale, debts of the company, and bad management of the company. The owners themselves are often cause of crisis: too high ambitions, wish for fast development, spreading capacities and business activities in different fields of business, purchase of other companies with bad characteristics, exceeded trust in existing management and so on [4].

Basic indicators for crisis in the house are:

- Blown-up organizational structure with interwinded hierachy
- Long meetings with many unuseful participants
- Rushed activity of the journey
- Over-dimensional report service that makes bunch of internal data, at the same time not giving reports about the changes on the field of market
- Lack of competence of managing staff
- Huge administrative procedures
- Unbalanced power of headquarter service
- Shortage of clear goals
- Fear of troubles and conflicts
- Lack of efficient communication
- Old organizational structure

Internal causes of crisis have their center, and their influence must start their influence from one field (purchase, production, finances...) or one phase in process of managing (planning, organization, control). Fact is that companies go in crisis mostly because of bad management.

Bad management of the company has as a cause the following weaknesses of the management:

- General manager is autocrat
- Most members do not participate in decisions of highest management
- Capability and knowledge of members of management are not equal
- Weak financial function
- Weak capabilities of management on levels bellow top management

Besides the numbered weaknesses in management there are certain weaknesses in accountancy. The most visible lack of the companies that go in crisis is the lack of capability for adequate reaction to change. It is evident that sometimes the management is trying to put the occurrence of the crisis to lack of luck or bad conditions. Physical catastrophies and political troubles can cause crisis, but experts agree that such occurrences are really rare (about 1% of all cases of termination of the company). The rest (99% cases) as reason has bad management.

The following division of endogen crisis is possible:

- Endogen strategic crisis
  - Choice of proper location
  - Choice of channels of sale
  - Width of assortment (too small or too big)
  - Wrong assumption of the future
  - Season changes (and decisions because of them)
  - Wrong politics of diversification
  - Unclear organizational structure
  - Wrong system of goals

- Unclear activities of management on levels
- Bad structure of people
- Incapable top management
- Characteristic lacks of top management
- Lack of capability for internal adjustment
- Development of products without order
- Investments (without orientation to needs\goals)
- Dependency of one supplier
- Lack of control of quality
- Excessive capacities
- Lack of technological equipment
- Services after sale (undeveloped)
- Wrong financial calculations and manipulations (balances, forgeries...)
- Too small personal capital
- Endogen crisis of success
- Put off success of development (or expenses of development) of new products because of unexpected circumstances
- Bad relation price\usage
- Old products
- Too high price because of too many expenses
- Sale on prices under the price of cost
- Big projects that bring losses
- Growth of expenses
- Decrease of sale (as a consequence of uncovered fixed expenses)
- Lack of profitability of individual products or lines
- Purchase of unprofitable companies
- Wrong propaganda
- Bad material business (too big, badly structured stocks)
- Too high personal expenses
- Too high expenses of interest rates, lack of insurance
- Cheating, stealing, bribing
- Endogen crisis of liquidity
- Financing of long-term investments from short-term sources of finances
- Lack of reserves. Lack of supervision of debtors
- Bad disposition of financing
- Too high risk
- Too big investments in unproductive fields (control of quality, stocks)
- Pessimistic statements of the management
- Too high stocks because of decrease of sale
- Temporary lack of sale

## 5. CONCLUSION

Today, in merciless market game, many companies are removed from the market because of crisis. The others can use chances and fit in new surrounding and find their place (use a chance) on the market. Because of changes that happen on the market, the companies are forced to change in order to survive.

Through changes that are done in the company in times of crisis, and some and radical, the company adjusts to surrounding to use spotted chances. Positive effects of such changes have influence on whole business and economy of one country. The state as stock holder is also included in this process.

Seeing threats and respond on them on time in order to decrease their negative influence on the company, is the main task of managers today.

Innovativity of the company should be emphasized, innovative workers should be rewarded, because they are the once who will succeed to fight for existence of their organization, and certainty of their working place and on satisfaction of their personal needs.

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## FOREIGN EXCHANGE CURRENCY POLITICS SUGGESTION

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***Summary:** Foreign exchange rate implies the price of a certain foreign currency expressed in domestic currency. Foreign exchange rates are means by which international transactions are performed in the economy of the world. Balancing foreign exchange rates is one of the basic parameters of market economy. In market economy development so far we can pinpoint the following rates.*

***Key words:** Foreign exchange rate, real foreign exchange rate, foreign exchange rate politics, foreign exchange rate types.*

### 1. INTRODUCTION

Foreign exchange rate is the price of a certain foreign currency expressed in domestic currency, or domestic currency expressed in foreign currency. As currency price, foreign exchange rates are susceptible to change. These changes will depend on the size of changes in domestic currency value and foreign currency value, and on the relationship of offer and demand of foreign currencies at this specific foreign currency market [6].

The problem of forming foreign currency exchange rates seems to be very simple, as well as the system of payment, even though these notions represent very complex relationships. International payment mechanism does not differ much from domestic methods and systems of payment.

Foreign exchange rate is the price of a certain foreign currency expressed in domestic currency, or domestic currency expressed in foreign currency. Money, which is the subject of buying and the price of which is expressed in foreign currency units becomes goods sui generis.

Exchange rates show the number of currency units of one country exchanged for a number of currency units of another country. Nowadays it is usually about exchanging money and less about exchanging currencies. As we have already seen the price depends on the value of both domestic and foreign money and their interrelation. This means that foreign currency exchange rates depend on offer and demand at foreign exchange market and that they must meet their monetary parity.

During the years of golden standard, domestic currency value (tied to gold) was basically a determinant of foreign currency. During the years of golden standard defining and changes of foreign currency value were significantly different from its forming today. Inter currency value of money was objectively set by the amount of gold which contained or represented each national currency unit. Relation of values between two currencies was defined by relation of the amounts of gold or relation coin rates. This is well-known inter currency golden parity. If for example coin rates of currency A was 100 and currency B 200 (for example out of one kg of gold 100 coin units could be made for currency A and 200 coin units for currency B), when we relate these two rates we get quantitative expression of golden parity of these currencies. This means that two units of currency B would value as one unit of currency A, considering the fact that they continue the same amount of gold. Inter relations of coin rates was a basic element in defining inter currency value of money, and so in defining foreign exchange rates.

During times of paper money when instead of gold money, paper money without its real interior material value appeared (in international market credit money), currency conversion and defining currency value problems become more complex and responsible issue.

Automatism can not be talked about. Theoretically, there are no boundaries to which foreign exchange rate could increase or decrease as it now depends on the relation of offer and demand of a specific currency.

## 2. TYPES OF FOREIGN EXCHANGE RATES [1, 2]

**Fixed foreign currency exchange rates** exist when relation is stable between domestic and foreign currency, which means at one fixed amount. With fixed rates small fluctuations are allowed – 2.25% at the most, above or below the parity.

**Flexible foreign currency exchange rates** are formed at foreign market in broader range compared to fixed foreign currency exchange rates, or from fixed parity.

**Fluctuating foreign currency exchange rates** are also formed at foreign market but depend on offer and demand of currencies. These rates are based upon previously fixed parity done by monetary institutions. This kind of foreign currency rate is also called floating rate.

**Multiple foreign currency exchange rates** are as a rule defined by the state. These rates are used to influence export and import flow and other payment obligations towards foreign countries, by the state. Thus, the country can fix one rate for export and other for import of goods.

By these rates the country directly influences international economy and financial transactions. Multiple foreign currency exchange rates are mostly used by developing countries, for purposes of solving problems of foreign currency rationalization and for protection of domestic production from unfavorable influence from abroad.

## 3. FOREIGN EXCHANGE POLITICS HAS TWO AIMS [3]

Foreign exchange politics must successfully balance macroeconomic stability (which assumes relatively stable nominal course) with requirements of foreign trade competition (which require competitive level and limited real course variations). By that, successful rate politics, which harmonizes these conflict aims to some extent, must always avoid higher (above 5 – 10%) appreciations of real foreign currency exchange rates in order to avoid unnecessary growth of foreign trade deficit, foreign currency reserves decrease, etc, which compromises credibility of economic politics.

## 4. WHAT IS REAL EXCHANGE RATE?

Real foreign currency exchange rate is a calculating category, which is given when nominal rate - or market rate – is corrected by domestic and foreign price increase (which means when double deflated). This means that each nominal course becomes real when it is deflated and anybody who may say that the rate is not real does not know what he is talking about.

## 5. HOW DOES AN EXCHANGE RATE BECOME OVERRATED?

A rate becomes overrated if domestic prices grow faster than foreign. This can happen out of three reasons. One is overprinting money, the other is liberalization in other controlled prices, and the third reason is structural adjustment ( explanation: growth in productivity and wages in exporting sector leads to payment growth in service sector or to closing shops, as sector of services does not have productivity growth, payment growth and sector survival is enabled by increasing their prices. At macro level this leads to inflation and real appreciation).

## 6. WHO NEEDS OVERRATED EXCHANGE RATE?

People who do not keep their saved money at home, as by diners that value less and less they can buy the same amount of foreign currency or imported goods. This part of population objectively loses if imported goods becomes more expensive, and they can not buy domestic, but this problem is easily solved by importing cheaper (Korean, Bulgarian etc.) products or by fast activating domestic production, which would be the aim of economic politics in this area. Floating rate order valuation would objectively be an attack on life standard of this part of population which, I think is the main reason for preserving politics of overrated foreign exchange rate politics.

Companies that do not export or are at the edge of rentability are so as imported raw material is cheap. To all the other this kind of politics is damaging: the state loses foreign currency reserves and goes under loans excessively, exporters lose potentially growing profit, and owners of foreign currency savings accounts lose their buying power as value of their money decreases.



## 7. FOREIGN EXCHANGE CURRENCY POLITICS SUGGESTION [5]

After initiative stabilization and significant decrease of qualitative and custom foreign trade barriers, we should introduce politics of competitive real foreign currency exchange rate, which will in a very short period of time (three to six months) emphasize nominal rates stability, and in the following period real stability of exchange rates through a specific mechanism of flexible nominal exchange rate managing.

The aim is to achieve foreign trade surplus by current transactions, which will be necessary for reprogrammed debt regulation. Crawling band politics has two key advantages compared to long lasting fixed rate politics and flexible rates only. First, it admits the fact that a fixed rate can not be defended without losing reserves, drastic control of import or very strict fiscal and monetary politics and politics of wages. Second, it respects the necessity of avoiding rate appreciation, for purposes of export growth and foreign currency profit. Hungary applied such a concept and Poland applied a similar one (crawling peg).

## 8. CONDITIONS FOR SUCCESS...

There are three conditions for this politics success. First, it will be successful if domestic demand is under control, which means there is no wages growth above productivity level and budget expenses level outside of set frames. Second, balance-of-payment deficit can not be too large (critical level is 5% BDP, and it is over 20% in our country!!!) and foreign currency reserves should be at the level of three months import value (they are currently at the five month import value). Finally, state politics considering bad companies will be of the most significant importance: if politics of their subvention in this or some other way, chances for success automatically disappear, as success of exchange rate policy is put into question, but also the question of possibilities and reason for all other reforms rises, if economic conditions continue to be dominated by state interventions.

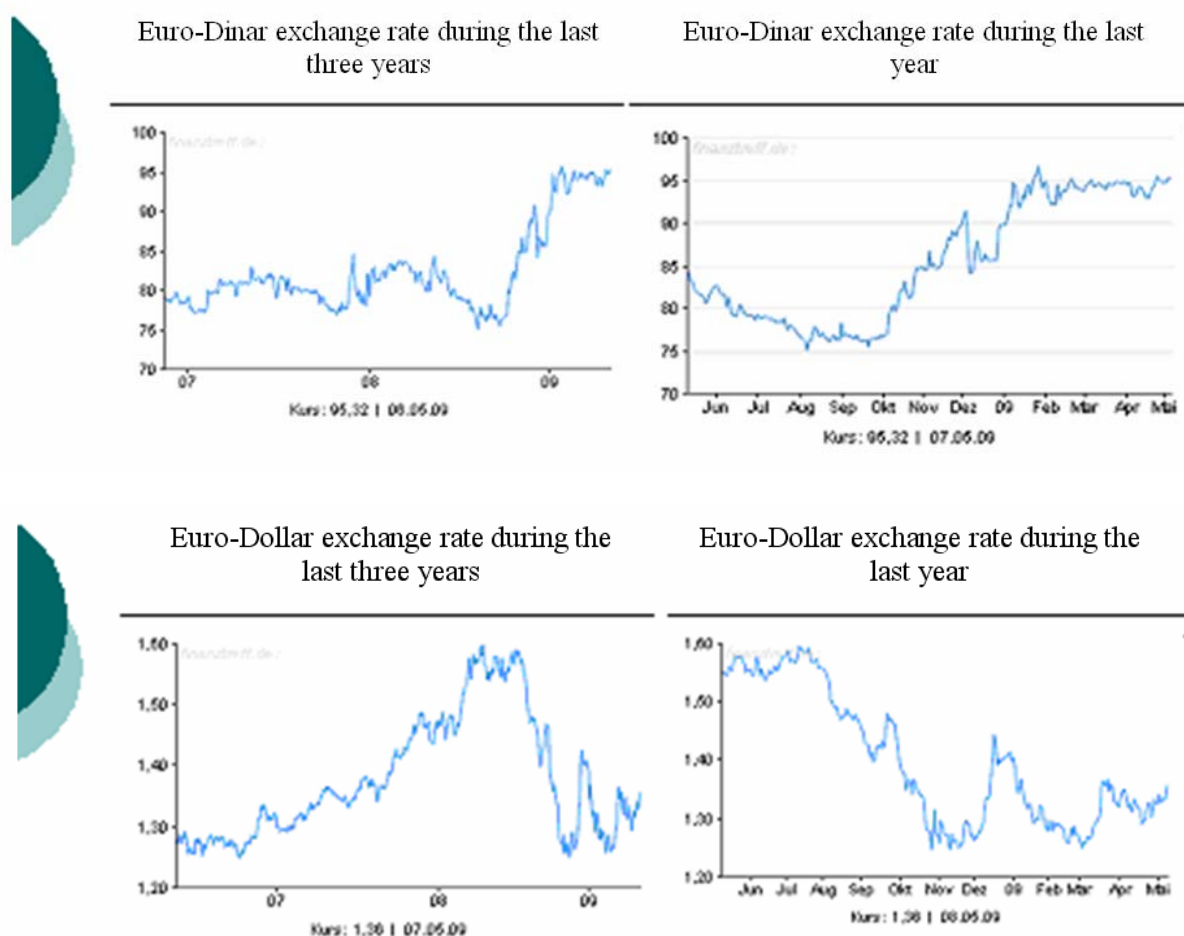


Figure 1: Euro-Dinar and Euro-Dollar exchange rate [7, 8]

## 9. CONCLUSION

Successful exchange rate politics should stimulate domestic prices *not to fluctuate, and exporters should not suffer in export decrease for that reason.*

In case that domestic inflation gets higher than inflation in the world these aims become conflicting, as the first one undoubtedly means that *nominal economy rate* should be stable, while the other aim would require *real* currency rate to be stable, which means that the first aim should be given up and economic currency rate begins to depress.

Anyhow, it is clear that successful foreign currency exchange politics should avoid things to move into the opposite way, and real state foreign currency exchange rate apresses, so that the currency becomes overrated as it leads to international trade deficit growth, domestic foreign currency reserves decrease which compromises economic politics credibility.

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## INFLUENCE OF GLOBAL CRISIS ON BUSINESS AND MARKET OF WORK OF COUNTRIES IN TRANSITION

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***Summary:** Focus of actual crisis is on the most developed capitalistic countries, whose dynamics of development, economic and social structure and the way of management are the causes of crisis and make pace and directions of crisis processes in the world. These processes did not go around our region, countries in transition. Crisis additionally deepened the difficulties of market growth of transitional countries because of they were in stagnation for a long time. In order to face the negative consequences of the crisis in the best possible way, it is necessary to come to many measures in spheres of market that refer to anti-crisis politics. Crisis influences the market and social status of workers, so we need to take many measures to preserve working places and urge employment.*

***Key words:** global crisis, business process, financial market.*

### 1. INTRODUCTION

Events that occurred on financial markets of the USA during summer of last year were transferred to other financial markets in the world, marking that it is a global financial crisis.

Global crisis on financial markets of the USA was caused by inclusion of bonds of mortgage credits on the market of capital. Inclusion of valuable papers of credits for real estates supported by mortgage flow of money in value of a few billion dollars that were not covered, caused chain reaction or domino effect.

Financial crisis from the USA was transferred to European financial institutions, and once caused reaction in the sphere of mortgage bonds, was transferred to sectors of other instruments on the market of capital. When that happened, the impact was even stronger and came to planetary basis, and involved transitional countries which includes countries from our region.

Considering the existing global crisis on world market and consequences that it brings, managers have new challenges to solve the current crisis and do not crash in long-term development. In such times of crisis there is decrease of expenses of the company and firing of many people which directly influences social status of workers, so the Unions have a difficult task to protect the position of the workers.

### 2. THE TERM TRANSITION

Under the term transition we assume social and political action that happened after the fall of socialism [9]. Generally, it is seen as transition or movement of society from socialism to capitalism. The process of transition should annul the negative consequences of socialism, or communism.

However, it does not mean that all its consequences should be terminated, including those which are not negative. Most of all, positive consequences were in fast development of industry, which achieved high level of technological and organizational development. Second, those are general consequences of development, such as social safety, quality social, pension and health insurance, as well as good system of education and most of all capability of business to hire great number of working force in the country.

According to that, in case of transition, it was some kind of moving backwards, to some kind of starting point from where the socialistic social experiment started, where social movement started and was defined as a

transition from capitalism to communism. The essence of that process came down to exchange of private property under productional forces for social ownership, that is, termination of private for social ownership. Now, a reverse process should happen. The social is terminated for private ownership on means for production, capital in shape of money, means of work of all forms, resources in general and so on.

Process of transition is defined as process of turing public and state property to private property. The meaning of the word transition is in fact that that word means some sort of movement, and not movement in general, but one way and specific movement. The word is complex and has two elements. One element is adverb trans which means through or over, and the other is addition -sion, meaning place or position. The term, relates to passage or crossing over from some determined position and place to some other position and place, passage from one to the other condition, passage to something else than before.

## **2.1. What does transition bring to us?**

Process of transition has an aim to bring back in life capitalism. It was shown that socialism was a waste of history, in communistic social system or in communistic government, the condition of human freedoms was bad, people were under autoritative government and they were not able to enlarge their assets or reproduce it more. Also, exhibition of human individual capabilities was not possiblble unless they were used in interest of the government itself.

Transition brings the decrease in role of ordinary working force, and opposite to that in number, role and meaning, the role of highly developed working force grows and generally highly developed forms of human work, specially of different experts in the field of research, innovations and constructions, and manager action in the field of planning and leadership. This working force starts to dominate in all segments of production, from planning, research of the market and other preparational operations, to construction of technology and product, constant innovation, in the field of technology, and organization and management in the whole. This change in structure, quality and effects of work of highly developed and educated working force, had multiplied influence and caused numerous consequences. The total process of development of relationship in the production turn around the meaning and role of almost all elements of the process. Instead the key meaning of money of individual entrepreneur capitalist, new development put knowledge in the first position: knowledge about how to produce something –'know how', knowledge of organization and leading of process – menagemant and knowledge about the conditions of production, that is the capability to efficiently participate on markets of all kinds.

Capital does not appear as private person or owner, but abstract moving force of production which is represented by different subjects. The carriers of capital are banks, then financial insitutions and state. Complex structure of carriers of capital includes financial insitutions, state, carriers of 'know hos' and carriers of managing function, who are active factor of the whole process and one of important carriers of the role of capital. The role of managers is very important today, because from them it depends if the capital that occurs will be used in good way, represented by abstract subjects, who occur through functions of certain bodies, such as ruling and supervisory boards of the companies and parliament of stock holders or banks.

## **3. CRISIS IN GLOBAL SURROUNDING**

World business has gone through many periods of rises and falls. This falls sometimes had a character of global crisis, with catastrophic consequences on global, national, corporative and individual plan. For actual growing, global financial and economical crisis experts predict hugh scope and negative consequences. The reason for that is sensitivity and dependance of national economies from global financial and economic centres of power, as well as insitutions and mechanisms of functioning of global financial market. To this we should add that there is great trust and expectation, of small and big 'players', success on stock markets all around the world. In that greed for fast wealth, many individuals, companies and states was brought to the edge of complete crash [4].

Connection and inter-dependance of business subjects, as a consequence of economical globalization, lead and will lead other business subjects to serious difficulties and crisis. Our region is not out of this, not its institution, business subjects, with smaller or greater consequences.

### **3.1. How can we face the crisis?**

Crisis revealed and will deepen the difficulties of business development of countries in transition. Since the crisis is great, it is necessary to make and conduct anti-crisis policy. Anti-crisis policy must accept the challenge, but with full awareness and responsibility to see problems and adequate solutions, leaving aside false hopes. We must now use all means to keep business on high level and create domestic sources of accumulation for further rise. Instead to savings and expensive credits, withdrawal of money in reserves, lack of emission, anti-crisis

policy must rationally and productively use all means, save property and resources, stimulate the demand, production, export, innovations, cooperation, business spirit and rise the quality of services. But this all asks for reform of existing monetary and fiscal policy and their orientation to improvement of production and export. We must limitate the flow of capital from the country and attract foreign investments for export production as much as we can and for opening of new working places.

The answers to the crisis must be searched on new levels and in all sectors of business. The consequences will be less if we soon start to analyze the action of crisis.

### **3.2. Influence of global crisis on companies**

Current economic crisis is one impact that hits companies. Effects of the crisis will not influence in the same way the different business branches, small, middle and big companies, stabile or less stabile companies. Among extern factors of termination of a company we can name: strenghtening of the competition and impossibility for the company to follow it, which creates lack of competitiveness of products, sudden technological changes that company can not follow, social problems in national and international levels, decrease of living standard of population, sudden rise of prices of inner resources, change of condition of credit politics, drop of the value of national currency, high level of inflation and so on. If the company and its management do not want to collapse, they must find the answers on action from the surrounding by different kind of strategy, change of business policy etc. It is much harder to react on influences from surrounding and find solutions. In that situation, the solutions are usually in adjustment of new conditions.

In practice, the crisis in the company never occurs suddenly, no matter what are the inner and outer reasons of development, but partially. Signals of crisis, even the weak signals, should not be ignored. If the crisis has started, and no actions were taken, the responsibility is exclusively on management.

### **3.3. The respons of management on the crisis**

In a crisis situation, the management of the company, owners and management, have at their disposal many possible models of transformation of organization of work as a way to exit crisis. These models are not local invention, but they are used all around the world. Which model will be chose and applied depends on the causes, character and scope of crisis. Partial or general models can be used, which mean radical strategy of turn, and deep transformation changes.

Before a decision is made about the application of a certain model of exit of crisis, the crisis management is brought in, which does not assume only the change of existing management or bringing a new one, but setting of such an ambience in the company that demands quick and focused action on all levels in the company. Crisis management first identifies the situation and gives a diagnosis, analyzes productional, market and financial characteristics of the company and only then takes measures to exit crisis or make strategy of turn.

Crisis influences not only on public image of the company or organization, but sustains its capability to normally work and personal status of leading managers.

There are three periods of crisis management [8]:

1) Time before crisis

In time before crisis, the task of the management is to identify the crisis and prepare as much as possible.

2) Time of crisis

In times of crisis, management must make decisions under pressure of inner and outer surrounding. It tries to control the consequences which occurred because of crisis events and prepare the company to continue business after crisis with no problems.

3) Time after crisis

When crisis finishes, the management tries to go back to normal state and works no renewed creation of the influence of the company.

## **4. MARKET OF WORK IN CONDITIONS OF TRANSITION**

Transitional processes brought basic changes in the structure of employment. Number of working places decreased, and greatest losses were marked in industry. The conditions for finding a job are becoming harder. Business pressures and unstable market made companies turn to more flexible forms of employment: part-time employment, work with shorter working hours etc.

It is important to formulate national politics of employment, having in mind economic, social and other factors that influence employment. Employment has a double meaning. For worker it means salary, building personal capabilities, pleasure and social status, and for society it is a source of wealth. So, the aims of employment should have an important place in reaching economical and social policy. Transitional process opened new

possibilities for people, but also difficulties which came from adjustment to system changes and effects of globalization. In order to overcome these difficulties, national politics of employment must reach certain goals which are: prevention of unemployment, help in search for work, urging investments and creation of new productive working places, improvement of human capital, guarantee of reasonable salaries, and at last reaching full, productive and freely chosen employment, that is, unique approach to employment for all those who want to work, no matter how old they are, what sex they are, and what their ethnic and social belonging is. All countries ratified Convention of International organization of work number 122 and signed Copenhagen declaration. Politics of employment must be agreed through social dialog which will comprise all key players in the region, all regional and local institutions of market of work, government bodies and bodies of state management of the companies, associations of entrepreneurs and workers' Unions.

#### 4.1. How to improve the policy of market of work in countries in transition

Although active policy of market of work can not improve employment in great deal or eliminate unemployment, it can have important role in setting market of work. It can urge new employment and self-employment for people without work, open or co-finance opening of new working places for people that find job hard, and improve qualification of the seeker of employment. Transitional business developed wide scope of policies of market of work, but their work was often very lame. Reason for that was unsuccessful creation, unoptimal combination of measures considering local needs, bad focus of measures and lack of financial means. In order to improve its influence of market of work, these improvements are recommended [5]:

- having active approach and spread program of urging employment for as many seekers of work as possible
- working of professional education and training,
- urging programs of self-employment,
- urging employment of young people.

### 5. CONCLUSION

Global crisis is in all parts of the world, no matter if a country is developed more or less. The scope of crisis and predictions of experts of New York stock exchange say that it is a recession of world business that some analysts even compare with the great world crisis from 1929. to 1930.

Notification that some company is firing many workers comes from all over the world every day. Global crisis, on one wide put in bad position those who decide about working places of their workers, and from position of workers it put in bad position the safety of work.

Global economic crisis started questions about social status of workers, so Unions have new challenges connected to preservation of working places and position of workers in these circumstances. It is necessary to strengthen union capacities and harden union organizations so unions of certain countries should connect and by joint cooperation try to protect rights and interest of workers in the best possible way.

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## **BUSINESS BANKS AND THEIR INFLUENCE IN MODERN CONDITIONS**

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***Summary:** In modern conditions, commercial banks have a great importance due to its intensive relations with all the economy, they not only saved the customer money, organize their payments, and granted them loans, but made a very wide range of banking operaeija. Dans commercial banks are economically developed countries are able to offer its clients and several hundred different kinds of services. They like krvotoka powered economy and neprivredu necessary financial resources, financial transactions done for the account of their clients and customers (the economy and population) in the country and abroad.*

***Key words:** primary banking operations, credit policy, finance, placements, financial stability.*

### **1. INTRODUCTION**

The first association of ordinary people at the mention of term bank is that it is a place where money is kept. However, that does not reveal the essence of bank but also hides the fundamental meaning that bank has in modern business.

*Business banks* [5, pp. 31] are specialized banks that do business of negotiable instruments, giving note accept, taking guarantees by set documentary acreditives, negotiating in international turnover, organization of emission of other people's valuable papers in its name and its account etc. Because of these structure of business banks arre usually called discount or trading banks. These banks start to do other kind of banking business.

It is true, that ancestors of modern business banks ocured before new age. In Ancient Babilon in VII century there were institutions that did the business of banking of different goods. So called tesaurs (banking managers) did warehousing in the beginning, and later sold those goods (borrowed it to third persons) on certain time and with certain payment (interest).

On the other hand, the owners of such goods, tesaurs gave receipts about the goods they left which themselves became the object of financial transactions. "But the above-mentioned tasks is determined by the concept of banking business gavities - which in the modern interpretation implies withdrawal and store money or other value from the market" [1].

In Ancient Greece, with the development of metal money, banking business were done in temples which were safe place to keep the money, but in ancient times, money was exchanged and slowly through banks clients started to pay among each other, and clients got credits. Exchangers, and loaners, in Greece were called trapezist (trapeze in Greek is a bench, table) by tables where financial transactions were done.<sup>71</sup>

Beside exchange busines which were done by numulators in Roman empire, more and more important were jobs of reciving deposit and giving credits that special people were doing called *argentariusi*.

First banks were founded in XIV century. The first bank was founded in 1320. in Genoa (Banca di Genova). Only at the end of XVII century there were special central banks (Sweden, England), while till then in the banks were done jobs of emission and business banks.

In literature it is possible to see different definitions of business banks. Some are connected to its organizational or administrative form, but term bank is most commonly connected to its business. In that sense for business bank the most simple definition is that it is institution that takes and approves credits.

According to its finanacial and credit potential bank is taking and approving credit and other forms of turnover, as a primary banking business:



1. by usage of primary emission of central bank and according to its potential, the bank creates money by secondary emission and factors of monetary multiplication, and in that way influences greatly on size, schedule and other elements of global monetary politics in the country.
2. by providing and collecting assets for increase of its financial potential, the bank influences the flow and schedule of money accumulation and financial savings, location of money;
3. in dependance on the volumen and structure of its financial and credit potential, the bank has a possibility in certain scope to do trasformation of the means, that means that if it has means of bad quality, with shorter deadline of usage, it can invest it on longer deadlines;
4. bank as monetary and business subject, doing business with money means, influences in great deal on fulfillment of basic aims and tasks of current developing and economical politics of national business;
5. with its function in money sphere, banks do payments and charge of money means, participate in financial transactions of domestic business and population, as well as business with foreign countries, which shows that it has important role in doing the function of jobs of turnover, because it influences the speed of circulation of money means and their coefficient of turnover.

Today there is great number of business banks which are spread in this way:

*Form of ownership.* According to this criteria, all business banks can be separated to state and private. State business banks were charateristic for ex socialistic countries, and private for business banks in countries with market business. Under private banks we do not consider only banks that belong to certain physical person, but business banks founded as share holder societies. Most states allows foreign banks to do business on their territory. In many countries their activities are not limited (for example in France), but in some countries (Canada) there are certain limitations.

*Size of the capital.* Depending on this criteria all banks can be divided to small, middle and big. Limit amount of capital according to which we differentiate banks, by size is different for every country. So banks with the same size of capital in some coutries are big and in other middle or even small banks.

*Character of banking business.* Depending on the business that they do, business banks can be divided on universal and specialized. Universal bank to all clients (legal or physical persons and on matter what business they are into) give full spectar of banking services. On the other hand, specialized banks do only certain kinds of operations and get their name by it: Agriculture bank and so on.

*Territory of work.* By this criteria, business banks can be divided on local, regional, national and internation.

Scheme given in figure 2 shows where business bank are as financial mediators in monetary system of the country. Modern banks are multiservice financial institutions, that offer beside basic functions a very wider assortment of financial products and services to their comitments and clients.

Seen as a whole, it can be said that basic functions of business banks are focused on:

- (1) forming adequate financial potentials,
- (2) optimization of agregate and structure alocation of credits,
- (3) organization of money transfer,
- (4) providing financial services and advices, and
- (5) connecting domestic with international financial system.

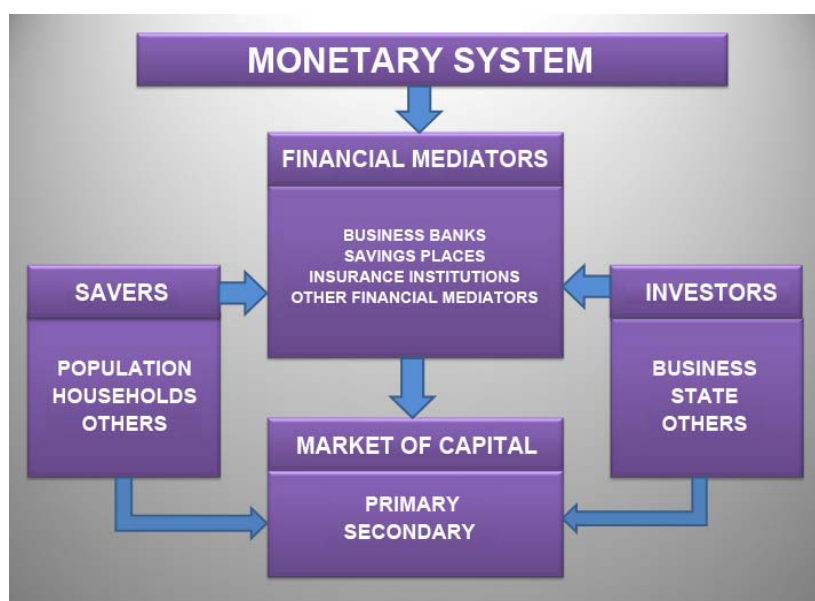


Figure 1: Place of banks in financial system of the country [5, pp. 287]



From the stated functions of business banking comes the importance of banks in monetary politics and financial system of the country. Of course, the banks go into certain arrangements in their own name and for their own account, that they could not do in previous fifty years. Motivated by making profit, our banks now go into business in different way and solve their intern problems in completely different way (change and accordance of management of managing structure, problem in number and structure of employees, development of network of business branches).

In the structure of functional business of banks it could be said that their deposits and their growth make the basis of mass of financial potential of banks, while basic mass of sale refers to credits. Business of valuable papers is still under necessary level in the banks which makes liquidity difficult, and influences profitability of banks. Any way, business banks are one irreplaceable segment of financial system of every business of every country and from their efficiency depend in great deal the effects of whole business in every country. Banks with other financial institutions – para-banking and specialized make useful financial mediators in jobs of mobilization, concentration and allocation of social capital of every country.

In their business strategy, management of business banks should stick to certain principles or regulations of business. Basically, it is about economical principles of business that are important for all business subjects, not only banks. However if they are not respected it could have big consequences. Not sticking to economical principals of business makes work harder for every business subject and directly hits him, and not just the bank but hundreds and thousands of its clients.

This is why there is big control of business of business banks from Central bank in order to minimize unwanted cases in banking business.

## 2. PRINCIPLES OF BUSINESS OF BUSINESS BANKS

There are some principles which were differentiated during long-time work of banks, and the most important are:

- 1) Principle of liquidity,
- 2) Principle of rentability, and
- 3) Principle of safety.

**Principle of liquidity** is a basic regulation of banking business which means that bank is capable to pay all obligations on time. Liquidity of the bank is if bank is solvent. Solvent business bank is its capability to complete financial obligations on time. In order to prevent to be insolvent, business bank leads politics of liquidity, that is, forms certain liquid means that can be used if at any moment or super short period balance of money transaction becomes deficit for the business bank.

Respect of the principle of liquidity is an assumption for stable and successful business of every bank. Because of that every business bank pays special attention to sustainability of its liquidity.

For determination of the level of liquidity of concrete business banks it is necessary to group some forms of its assets (sale and demand) having in mind the speed with which it is turned in the most liquid means.

We differentiate three levels of liquidity:

- a) Primary liquidity,
- b) Secondary liquidity, and
- c) Third liquidity.

**Primary liquidity** of business bank is made by its cash and means on its account in central bank. With means from primary liquidity business bank can at any moment complete its obligations.

**Secondary liquidity** of business bank is made of its sale that in where short deadline (during the day) can be turned in primary liquidity, and can be cashed fast and without greater losses before deadline. That refers mostly to valuable papers which are in portfolio of every bank (sale in state valuable papers, papers issued by central bank, valuable papers emitted by bigger corporations etc.). If the bank has more means of primary liquidity then bank can for those means buy valuable papers which will bring higher interest than to keep them in primary reserve liquidity. If means of primary liquidity can not cover the need for liquid means, the bank will decide to sell part of means engaged in secondary reserve on market of valuable papers. Secondary reserves of liquidity, unlike primary, are sale of interest.

'Although there is a possibility that there are sudden needs for additional liquid potentials they are covered by usage of credits for liquidity, banks prefer interest sale for the following reasons: 1. Not all banks can count on the same possibility to pay credit for liquidity, 2. In general credit mechanism is an expensive way to cover need for liquidity, 3. While same in secondary reserves bring interest income, usage of credits is negative score of the bank, 4. Performances of the bank have their own natural limit of loans, that in classic model of banking come to the rule that the highest rate of credit loan can not be above the rate of capital of the bank, 5. Reserves of liquidities are better choice of liquidity in case that needs for liquid potential are permanent and less temporary' [3, pp. 127].

**Third liquidity** are those parts of sale of business banks that more slowly transform in primary liquidity. Because of their characteristic these banking sale are more theoretical than practical element of liquidity.

Every bank does for itself quantification of necessary level and structure of liquid means since there are not two banks with the identical problems of liquidity, and in the same bank in different periods there could be very different needs for liquid means. Because of that, it is very important for a bank to use experience and intuition while quantifying necessary level and structure of liquid means, having in mind the following facts too [2, pp. 255-256].

First, one should have in mind the amortizing effect of necessary reserves on increase, that is, decrease of liquid means of business bank in case of net influx or net flowing of deposit means. In case of net flow of deposit from business bank a part of obligatory reserves from the account in central bank is released, and the other way round, in case of net influx of deposit one part of increased liquidity is blocked as obligatory reserve on the account at central bank. In first case the decrease of liquid means is smaller (for the amount of released obligatory reserves) than net flow of deposit means of business bank. In other case increase of liquid means of business bank is less than net influx of deposit means.

Second, having in mind the previous fact, it can be concluded that the higher rate of obligatory reserves, the lower is the necessary level of liquid means, which means that rate of liquidity is lower in conditions of net flow of deposit. In other words, changes in rate of obligatory reserves are in opposite proportion relation to changes in rate of reserve of liquidity.

Third, because it is possible that sudden risks in business will occur, higher reserves in liquidity than average as a rule have small banks. Big banks have wider deposit system and stable structure of deposit than small banks. Higher reserves of liquidity than average have banks in which management of the bank leads more conservative and careful business politics in relation to banks with more liberal business politics.

Fourth, seasonal and cyclic business movements in business decrease or increase the pressure to liquidity in direct following period. Maximum of business activity results in maximal scope of credit need and minimal scope of deposit which means decrease of pressure to liquidity in the following period when the need for credits will be decreased and scope of deposit increased. It is the other way round in the time of minimal business activity.

Fifth, higher control of business on the side of Central bank and sanctions for unliquid banks will contribute to forming of reserves of liquidity on higher level than in the case of mild system of sanctions in case they are not liquid.

We should emphasize at the end that principle of liquidity the bank should fulfill with maximal engagement of its credit potential, so that the other principle is not endangered – principle of rentability. In other words, corrective factor in relation to demands for certain liquidity is the need to fulfill expected rentability. Excessive liquidity decreases rentability, as well as too high demands for high rentability endanger liquidity of the bank.

**Principle of rentability** asks business bank to have maximal profit with satisfactory level of safety and liquidity. Maximal profit is one of the key motives for foundation and work of business banks. That is why management of business bank tries to increase profit constantly, first by decrease of expenses of business, increase of scope of sale and business and so on. He is forced to do that by high competition that exists in banking.

However, it is not recommendable for the management of the business bank to try to fulfill high profit at any cost and endanger other principles of business – principle of liquidity and principle of safety. In other words, maximizing profit can go to the level which does not endanger liquidity and safety of business bank.

In that way the profitability is seen not only as maximal, but as optimal thing that does not endanger the necessary level of safety and liquidity.

**Principle of safety** is such sale of means from business bank that provides high level of safety that client will on time and completely fulfill all his obligations. Between principles of rentability and safety in banking there is opposition. Usually, those seekers of credits that do not provide maximal safety that they will pay back the credit on time offer higher interest rate. In such cases the bank has two possibilities: to sell means with higher risk where rate is higher and the income, and get higher rentability or to hire means with smaller risk with smaller interest and lower rentability. In other words, business bank must secure their safe returning with the interest.

Because of that business bank, when it is selling means does a mark of financial position of client and his credit possibility. Sometimes it does not satisfy only with that but asks for certain things (note, mortgage etc) when it is giving the means. Not taking enough care about the principle of safety, business bank automatically endangers the principles of liquidity and rentability.

Potential conflict between basic principles of banking exists always when one is preferred. In that case risks of business are increased which can be illustrated in this way [4, pp. 5]:

Unless the management of the bank prefers profitability, it can endanger liquidity which will increase the risk of being unliquid, but can at the same time endanger the principle of safety which leads to possibility to increase unsold credit sales. Increase of risk of unliquidity and credit risk will reflect negatively on profitability of the bank, and can have fatal end for the bank – bankruptcy. We talk of 'risk over reasonable measure' since bank is exposed to risk in its job and in practice it is never excluded completely.

### 3. CONCLUSION

From all the functions of business banking, the importance of banks is seen in monetary politics and financial system of the country. Banks give to business and non-business sector the financial means they need, do business of financial transactions for their clients in country and abroad.

Banks enter in some business arrangements for their name and their account, which they could not do in the previous fifty years. Motivated by making profit, our banks now enter some businesses in a different way and solve their inter problems in a completely different way (changing of management of managing structure, problem in number and structure of employees, development of network of business branches).

In the structure of functional business of banks it could be said that deposits and their growth are the basis of the mass of financial potential of banks, while the basic mass of sale is of credits. Business of valuable papers is still under necessary level in our banks, which makes liquidity harder and influences profitability of the banks. However, banks still make irreplaceable segment of financial system of every business and from its efficiency in great deal depend effects of whole business of every country. Banks with other financial institutions make useful financial mediators in mobilization, concentration and allocation of social capital of every country.

In its business strategy management of business bank should stick to certain principles of business. It is about principles of business which are important for all business subjects not only banks. However their disrespect has bad consequences. Disrespect of economic principles of business makes every business subject harder to work and directly influences on him, not only bank but hundreds and thousands of its clients.

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## **STRATEGY OF REGIONAL DEVELOPMENT OF THE REPUBLIC OF SERBIA WITH SPECIAL TURN ON THE DEVELOPMENT OF LOCAL GOVERNMENT**

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***Summary:** Nowadays, regional development represents an integral part of the whole social and economic development with certain economical, developing, social, and political repercussions. Accordingly, regulated politics of today should remove and weaken limitations faced by the undeveloped areas and thus enable them the faster development. In this paper we will consider basis of regional development in general and further on the aims and strategic directions of equal regional development of the Republic of Serbia. Therein, an emphasis is placed on the role of local authorities. Local development is a basis for fulfillment of equal regional development. Also discussed are the necessary measures (economic, regulatory and institutional) for the purpose of local governments becoming capable of conducting the local development. It is also emphasised that the aim of the sustained development in the field of social development and improvement of living conditions of population is in the importance of decrease of poverty, dynamic business development and increase of employment.*

***Key words:** strategy, regional development, local government.*

### **1. INTRODUCTION**

During the whole post-war period in ex-Yugoslavia, the politics of emphasize of faster growth of undeveloped areas was very important in Yugoslavia politics of development. The basic aim of development politics was faster development, one of important elements of long-term developing strategy<sup>2)</sup> was a fast growth of undeveloped.<sup>1)</sup>

Equal regional development is an obligation of the state and it is regulated by act 97. in the Constitution of the Republic of Serbia, and that regulation means that development of undeveloped areas.

Regional development from the modern aspect is seen as integral part of the whole social and economic development and has certain economical, developing, social, and political repercussions. Because of that, regulated politics of today should remove and weaken limitations that undeveloped areas are facing with and make them capable for faster development.

The aims of the regional development of the Republic of Serbia that should be fulfilled are:

- a) sustainable development;
- б) rise of regional competitiveness;
- в) decrease of regional inequality and poverty;
- г) stopping negative demographic movements;
- д) continuance of the process of decentralization;
- ђ) economic integration of Serbian communities on Kosovo and Metohija;
- e) development of institutional regional infrastructure.

Local development appears as basis for fulfillment of equal regional development and contributes not only to development of the region but development of the whole country. The key question of strengthening of economic power of local government is fulfillment of the right on municipal property, and that is giving it back to local governments. Besides, the questions of financial stability should be solved and planning of investments in communal infrastructure. In areas with high unemployment, we should work to improve business activities and competitiveness.

## **2. BASIS OF REGIONAL DEVELOPMENT**

During many decades, regional development has not been seen as integral part of the whole social and economical development. The problem of regional development was marginalized, analyzed as a separated and not very important dimension of complete development. The fact that was constantly avoided was that development has its regional and space dimension and that defining institutional developing mechanisms is not regional neutral. Regional differences were seen from the aspect of the level of development, so their economical, developing, social, and political repercussions were neglected. Mostly, it was all about the faster development of undeveloped areas and means were set for it and mechanisms were defined. The aims of regional development were defined in general way and repeated during years. Such an approach leads to deepening of regional and structural developing problems. The consequences on the territory of the Republic of Serbia are evident.

Basic motive for hiring of state in this area are huge intraregional and inner-regional differences which stop the development and initiate migration. Big and strategically important spaces stay uncovered by population, and their resources are not used. At the same time, in developed centers there is too high concentration of population and business, which produces negative consequences in economical, social, special and ecological sphere. In new regional politics, the role of state comes down on termination of limitations that endangered territories face. That especially relates to area that needs help with special developing problems, through investments and stimulation of capital. It is necessary to have continuity and keep intensity of support for longer period of time, in order to make support of the state effective.

## **3. THE AIMS AND STRATEGIC DIRECTIONS OF EQUAL REGIONAL DEVELOPMENT OF THE REPUBLIC OF SERBIA**

The basic aims of regional development of the Republic of Serbia are: sustainable development, rise of regional competitiveness, decrease of regional inequalities and poverty, stopping negative demographic movements, continuance of decentralization, and economical integration of Serbian communities on Kosovo and Metohija and development of institutional regional infrastructure.

**Sustainable development.** Increase of living standard of generations today is acceptable if sources of welfare are getting stronger and factors of development are improved, which improves potential of development of future generations. Sustainable development should result in long-term balanced development of all three components of welfare (economical, social and component of environment).

**Rise of regional competitiveness.** Key developing aim of the Republic of Serbia is welfare of population. In order to fulfill that aim, the Republic of Serbia must focus its strategy of business growth especially on rising regional competitiveness, decrease of unemployment and poverty. Only by rise of regional competitiveness in following years the average annual rate of growth of BDP in the Republic of Serbia can be 7% till 2012, which means that level of BDP is 8.000 dollars per person. This aim demands efficient conduct of all transitional and reform processes that can activate regional developing potentials of the country – human, material and natural – and contribute that business in the Republic of Serbia becomes attractive for faster development of domestic private sector and higher investment of foreign capital. The primary task of the state is formation of healthy market ambience and attraction of foreign direct investments. Firm decision of the Republic of Serbia to join EU as fast as possible, demands creation of ‘a stabile and efficient market system of business and competitive business capable to face the pressure of competition in the EU’ (criteria from Copenhagen), that is, to create maximally ‘competitive business, based on knowledge, which is capable to provide sustainable business growth with new and better paid working places and higher social cohesion’ (aims from Lisbon).

**Decrease of regional inequalities and poverty.** Regional disproportions in level of development in the Republic of Serbia are the highest in Europe and they are getting higher and higher every year. Although, there was economical growth in period from 2000. to 2005. every tenth citizen of the Republic of Serbia is poor, which is explained by effect of transitional changes in function of economic system. Regional disproportions till 2012. should be less than 1:3.

**Stopping of negative demographic movements.** Depopulation (intensive process of demographic discharge is in 79 municipalities), migration flows (since 1981. there have been negative migration result which in period from 1995. to 2000. was weakened by flow of refugees), negative rate of population growth (22 regions have negative population growth), demographic aging (of 7 stages of demographic aging all regional are in three: the deepest demographic age, deep demographic age and demographic age), death of children (twice as many that average number in EU), life expectancy (1,5 years less than average in Europe), are huge demographic and developing problems.

**Continuance of process of decentralization.** The Republic of Serbian till 2000. was a highly centralized country with limited autonomy for local governments. Transitional reforms improved the position of units of local

government and gave them higher level of decentralization. The frame for democratic action of local government was systematically done, towns and municipalities got widened area of trusted jobs, by which the local government in the Republic of Serbia got important level of affirmation in relation to previous period. After Constitution was accepted, there were systematic assumptions for further strengthening of local government. Economic integration of Serbian community in AP Kosovo and Metohija. Having in mind that Serbian community in AP Kosovo and Metohija face the hardest forms of life and work, one of the priority strategic aims is economic integration of this region with the rest of Serbian business. The matrix of aims of regional development of the Republic of Serbian is given in Table 1.

**Table 1:** Matrix of aims of regional development of the Republic of Serbia

Aims	Indexes
Sustainable development	Structural indicators of EU
Rise of regional competitiveness	Productivity of work, regional indexes of competitiveness, participation of propulsive branches in structure of industry
Decrease of regional inequalities and poverty	Index of developing threat, BDV, rate of unemployment, salaries
Stopping negative demographic movements	Demographic indicators
Continuance of process of decentralization	Source budget incomes of local communities, Index of human development, Index of enterprise, infrastructure indicators
Economic integration of Serbian communities in AP Kosovo and Metohija	Economical indicators
Development of institutional regional infrastructure	Reports of resource institutions

#### 4. THE ROLE OF LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT

The Republic of Serbia till 2000. was a highly centralized country with limited autonomy for local government. However, the expectations of full decentralization were not completely fulfilled and reform of local government was not done consequently and to the end. One of the basic reasons is in the fact that reforms in this area were directly conditioned by improve in reform in other fields (reforms of institutions of central government and public administration, fight against corruption, regionalization of the Republic of Serbia etc). The Constitution made basis for fulfillment of the basic demands of local government about restitution of municipal property (local government got the right on their property, so the next step is making and reaching laws which will set property of local government in order). However, general problem of regulation in this area is that acceptance of these legal acts is not followed by adequate under law regulative and creation of institutional instruments for their conduct. Undefined institutional frame lead to partial link between municipalities and regions when development initiatives were defined, flow of information and coordination of national, regional and local developing aims and priorities.

The other reason of weaker results of decentralization is connected to inner weaknesses of administration of local level and lack of capability to conduct reform measures. Administration on local level has had mostly, a passive role in defining and conducting of aims of local development. Decentralization is a completely new concept of planning – it is not just giving new functions from state level to local government, but a different ruling of old functions. For proper conduct of this concept almost all resources are missing: human, financial, organizational. There are a small number of municipalities that have their own capacities to conduct this process individually, and most of them rely on extern help. In the process of planning of development, all limitations that local governments have show and the need for strengthening of their regional link, so that these limitations could be easily overcome.

The basic condition for fulfillment of higher autonomy of local governments is their financial independence and stability. At the same time, the system of financing of local government is one of the most important areas for successful system of planning of development. Acceptance and application of the Law about financing of local

government should lead to: transparency, stability and predictability of system of financing of local government; better level of equality so that great difference in level of development would be terminated; strengthening of fiscal autonomy of local government ; and institutionalization of cooperation of local government and central government.

Besides the Law about financing of local government, Law about public debt and Law about the market of valuable papers and other financial instruments, the conditions are made for local governments to additionally improve their financial position. In this way local governments will have higher means than now and can successfully realize measures and activities that are planned by Strategy of local sustainable development. The strategy comprises that most important segments of action of local government and other participants in the process of local sustainable development defining concrete measures, actions and carriers of activities on local level.

Local development comprises a wide scope of different conceptions, activities and processes that local institutions, organizations and other players on certain territory mobilize for creation, realization and developing activities by which we use resources of certain region in the best way. Local development is realized through measures that certain regions, towns or narrower administrative-territorial units made, as well as numerous programs of national governments focused on support for local communities. A global aim of local development most commonly comes down to tries to increase income, widen possibilities for employment and provide higher quality of life on certain territory. Implicitly, politics of local development has as aim to correct certain lacks of market mechanism or mistakes of national economic politics. That is why the politics of local development includes numerous public (administrative) and social factors, such as: local organs, regional organs and organs of central government, citizens, unions, developing agencies, educational institutions and non-governmental organization.

Local development is a basis for fulfillment of equal regional development. Providing necessary resources, local governments contribute not only to local economic development, but to development of region, and in final instance to business development of the whole country. Carriers of regional development should be local governments, which are responsible for preparation of RRP. Strategic part of RRP is determined for a field of a number of local governments from one or more regions.

Basic aim of local government is to set it active role as a carrier and coordinator of local development. Every local government is trying to spread the scope of its activities, and deciding about means, developing projects, everything that considers citizens, in order to provide services to citizens more efficiently. The aims of local government are: bringing process of deciding closer to citizens, responsible local officials, providing good public services, higher efficiency in providing services, strengthening of local tax potential and improvement of general social condition.

One of the priorities of European partnership that relies to state government is: to adopt and conduct reforms for decentralization, to firm capacities of local governments. Key question for strengthening of capacity of local government is fulfilling right on local property (it is necessary to adopt law about return of municipal property), financial stability of local government and possibility to plan investments in communal infrastructure. Solution of these questions is a basis for equal regional development where local governments should have a key role.

In order for local government to adequately conduct stated roles, it is necessary to institutionally strengthen local governments and raise level of knowledge of chosen and set people, hired in municipal departments.

Process of decentralization means personal and material capability of organs of local government to individually take new jobs. Material capability should be found thorough process of fiscal decentralization which will be in coordination with decentralization of jobs, as well as with make of constitutional, legal and lawful basis for existence of property of local government. Ministry for state government and local government should give all necessary help in analysis of capacities of local government and making plans for their education.

The development of local economy should be based on sustainable usage of natural resources. The basic task of local government in development of local economy is making and adopting local strategies of economic al development and employment, as well as construction or strengthening of institutions, which would look at creation and implementation of adopted strategies of local development. Strategy of local development means conduct and promotion of simulative measures in field of economic development and employment, as well as regional linking of set opened dialog among local government. In that part of local development important role have funds for regional development, so it is necessary to set developing program for development of certain field. In that way the cooperation municipalities are supported, which integrate several projects and that fit into regional politics of the state. It would contribute to better local cooperation and development of less developed regions and areas.

In order to realize strategy of local development, local governments have to be hired to conduct different activities. Activities which realize strategy of local development are:

- 1) stimulating development of MSP;
- 2) stimulating foundation of new companies;
- 3) promotion of foreign and domestic investments;

- 4) promotion of development of clusters;
- 5) improvement of infrastructure – creation and repair of basic roads, repair of industrial railroads, creation and reconstruction of business space, creation and reconstruction of communal infrastructure;
- 6) other measures of support: providing education and training of citizens, support of research and development, providing services of business consultations, providing approach to financial means, support to foundation and development of business associations, enablement of business linkage, improvement of quality of life, improving services of local organs of government, help to the development of non-governmental sector;
- 7) making strategies for improving personal safety and decrease of criminal and so on.

## **5. MEASURES OF LOCAL GOVERNMENT FOR REALIZATION OF STRATEGY OF LOCAL DEVELOPMENT**

In order for local governments to become capable for conducting local development in the highest measure, it is necessary to have some regulatory, institutional and economic measures.

Regulatory instruments:

- ratification of EPLS – fulfillment of principles of subsidiary in division and realization of authority;
- adopting the laws that will regulate property of local government;
- regulation of spread of given income to units of local government (by the Republic of Serbia), which are not regulated by Law about financing local governments (most of all incomes from fees for usage of goods of general interest);
- making under-legal acts, which provide conducting the Law about local government, Law about protection of environment and other laws that regulate laws and responsibilities of local government;
- following effects of application of new laws and their change according to results of analysis made on basis of that;
- making, implementing and control of programs of privatization of communal companies in function of market business;
- making legal and institutional frame by which the units of local governments would be encouraged to develop and accept strategic plans of development.

Institutional instruments:

- forming proper bodies in municipal department for strategic and action planning, as well as preparation and realization of projects based on those plans;
- defining obligatory modalities of cooperation of local government with regional developing agencies;
- strengthening of existing institutional forms of association of municipalities (SKGO) and further decentralization of institutions which directly influence on efficiency of work of local government (tax department, inspections).

Economical and financial instruments:

- regulate the act of deciding and entering local government in arrangements for making and maintaining of communal infrastructure by certain legal;
- efficient valorization of space (introduction of new system of payment of city rents, control of agricultural to non-agricultural land, liberalization and efficiency of services who lease business locations, new spaces for business engagement of capital);
- spread of the right of local government for entering financial arrangements for construction of certain facilities on the territory of municipality (sports and recreational facilities, facilities of spa and village tourism).

Special attention should be given to local government on NRP of the Republic of Serbia. NRP in the Republic of Serbia are mostly agricultural and rural type, and they are characterized by inadequate business structure with dominant participation of agriculture, lack of qualified working force (most of these areas face problem of depopulation and lack of quality personal with necessary specific knowledge), undeveloped infrastructural capacities, weakly developed business and problems in protection of environment.

This condition shows the need of focused actions which would lead to development of undeveloped areas, with accent on usage of comparative advantages of some territories. That action means focusing of the part of budget and donor means for the improvement of developing capacities NRP, providing different forms of technical help to local governments, giving micro-credits, strengthening of interregional and inner-regional cooperation, especially on activation of local developing plans and opening of new working places and development of communal infrastructure important for development of small and middle companies.

In undeveloped areas with emphasized structural problems (high unemployment), the role of local government is especially important in improvement business activities and competitiveness (development of business, development of village tourism, service activities, cultural manifestations etc.). In rural areas, local government should have more active role in development and financing of projects for improvement of agricultural production (making systems for watering of agricultural land, organic production, agrobusiness



center/incubators, etc.) Also, the influence of local government is important for the strengthening of cooperative movement and its participation in privatization in agriculture.

## **6. CONCLUSION**

Having in mind all complexity of regional aspect, we can say that it would be necessary to formulate whole politics of regional development in order to comprise all territories and in consistent basis solve numerous questions of our regional business development. The problem of regional inequality is characteristic for countries which are not developed enough because of territorial inequality and deep historical reasons.

In the light of strategic development of local government in the field of economic development, the priority should have the development of agriculture and village, help to development of business and development of small and middle companies. The attraction of investments through application of modern conceptions of improvement of agriculture, through specialization in other business branches, development of private and public partnerships, preparation of certain locations, improvement of qualification of working force, improvement of work of local government, marketing and promotion.

Seen from the aspect of strategic aim of sustained development in the field of social development and improvement of life conditions of population, we should emphasize improvement of existing and development of new capacities in education, promotion of health and healthy styles of life, culture and sport in all spheres of development and institutional strengthening of local government and its capabilities to contribute to better life of all citizens. In that sense, decrease of poverty, dynamic business development and increase of employment of working and active population with termination of existence of new unemployment because of restructuring of business will have a big role.

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**PROBLEMS IN PERSONNEL MANAGEMENT  
- PERFORMANCES OF PERSONNEL MANAGEMENT GOALS AND  
PRINCIPLES AS THE PROBLEM OF MODERN MANAGEMENT  
FUNCTIONAL FIELD -**

**Saša Gavrić**

"Magic prom" doo, Dobo, BOSNIA AND HERZEGOVINA

***Summary:** The literature on business activities management has paid little attention in the past to personnel and labour force management, especially to the problems related to the management goals and principles. Practical experience confirms that certain problems related to the principles and goals of personnel management appear as crucial problems of modern organizations. Instead, the attention has been focused on the quantitative models and theoretical aspects of business operations. Simultaneously, psychologists and organizational theorists have mostly researched the behaviour of people in organizations. Nowadays, there is the need for greater application of the results of behaviour research in the functions of business operations, along with taking the stand of operational management related to the labour force management. The executive managers of today mostly emphasize managing people as the greatest responsibility or the most important problem. The practice confirms that it is about the fundamental functional management field. Since personnel management represents the functional field of management, the success of the whole organization or company depending on it, the purpose of this paper is precisely defining important goals and principles of personnel management.*

***Key words:** personnel, management, goals, principles, employees.*

**1. PERSONNEL MANAGEMENT GOALS**

Numerous disagreements related to specific approaches in labour force management (personnel management) arise out of the goals and principles of this management process in itself.

The most important goal of the personnel management should have to be achieving the labour output (performances). The goal of accomplishing the output is often expresses as productivity; however, this term is too narrow in meaning [3]. The output comprises all goals of the business operation, such as the costs, quality, delivery term, flexibility and similar.

The image from the past of the «warden over slaves» taking little care on people, instigates the opinion that the management over people is the best way of achieving the output. However, the fact is that «humanely oriented» approach has to result in better output than the approach of «warden over slaves».

The purpose of personnel management is not accomplishing the maximum performance, but accomplishing the greatest performance in applicable limits. The constraints prevent business activities managers to apply undesirable social, psychological and ecological solutions that cannot be present in the goals themselves [7].

Another view on the personnel management goals starts from the satisfactory performance instead of the maximum performance.

The satisfaction and happiness of labour force is not the primary goal of an organization, because in the case the organization is downfalling, there will be no work. It does not mean that the performance and satisfaction cannot be accomplished simultaneously, by an appropriate managerial approach. Thereby, the personnel satisfaction is not the goal by itself, but it should rather be viewed as the instrument. Managers should not be following the policy that the labour force satisfaction is the goal, hoping that the performance is automatically going to come as the result of the workers satisfaction. The manager should start from an acceptable level of performance, and the satisfaction will come if the worker is properly rewarded for the realized performance.

The term “personnel” originates from Latin word “squadri”- frames, and, at the actual time, from French word “cadre”. This term comprises all employees, although the emphasis is on qualified and managing people. The term “labour force” is more and more often being replaced by the term “personnel” [4].

In the economics encyclopedia we come to the following definition of this term: “all qualified holders of work processes”. The personnel should imply all subjective forces-all employees, in and out of the economy” would be the most complete definition.

## **2. WHO MANAGES PERSONNEL?**

The direct answer to the question who manages labour force is the supervisor, but the complete answer is somewhat more complicated. Personnel department has a great influence on the possibilities of managing labour force. Main administration and all levels of executive management are often included into making decisions on the personnel management.

The supervisor, or nowadays the human resources manager, has the responsibility to manage labour force within the limitations imposed by the organization, even though many other are included as well. The number of specialized experts is constantly growing, among them are engineers, accountants, lawyers, personnel staff, quality control staff, data processing staff and the role of these specialists is to support and assist the managers in the lines of work. The supervisor can come into a gap between the specialists and higher management. Naturally, this situation is not typical for all organizations.

Lots of managers have realized the pressure on the first level supervisors, so that they have assigned them the responsibility and authority and thus the function of the first line supervisor is extended to the job of professional management, which is appreciated and considered to be the key managing post. In that way a true relation is established between the lines of work and specialists, and to the personnel management the authority is provided necessary for them to achieve the expected results. This job of supervisor is highly wanted and it permeable towards the position in general management. The team leader that can be chosen by the workers eliminates the supervisor in some cases, and he/she has the function of leading and forming the team. Even in such cases, the role of the supervisors is not decreased, they are still needed.

## **3. PERSONNEL MANAGEMENT PRINCIPLES**

According to literature, theoretical and practical cognitions, the following can be mentioned as the unavoidable principles of good personnel management: Find an appropriate work for worker-s, clearly define the worker’s responsibilities, set the performance norms, ensure the participation of workers in communications, provide training and ensure good supervision.

### **1. Finding the appropriate work for worker**

People should be chosen for jobs based on their individual differences and advantages, and the jobs should be projected according to the available force. If the labour force is well-educated, intelligent and capable of accepting the responsibility, more extensive jobs can be conceived. The personnel should be advised to accept the jobs satisfying their personal requirements. Whereas, some can be asked to accept more responsibilities, from others is asked to accept the responsibility.

### **2. Clearly define the workers’ responsibilities**

One of the principles of good personnel management is to clearly define responsibilities of all workers, performed through written descriptions of the jobs or statement on goals that are constantly innovated. On the contrary, when the responsibilities of a job are vague or constantly changing, the workers feel disappointed, which can cause poor quality, low productivity and conflicts among individuals.

### **3. Set the performance’s norms**

The performance’s norms have to be developed for each job; they specify what is expected from the worker to fulfill so that they enable that on the basis of the performance the greater decentralization of control over workers is executed. In case the norms are not set, the workers can become confused regarding their responsibilities and over-dependent on the supervisor with respect to guidance at work.

### **4. Ensure communication and participation of the workers**

People have the need to be informed on the company’s policy and should feel that they can influence on the policy through the participation in making decisions. By establishing the communication in both directions, between the management and the workers, the performance increase is achieved.

### **5. Providing training**

The training is often considered to be a privilege in organizations. In cases of budget decrease, training is the first on the impact. In order to ensure the capability in performing work before starting the work, training should be started since the first day at work. Professional improvement of personnel should be continued

through training and education so that a possibility of career promotion is created. The training has to be in continuity because skills and technologies in the world constantly advance.

#### 6. Ensure good supervision

Nothing is more important for workers than a good supervision. The supervisor should be competent, both in technological knowledge and in the management skills and should possess the sense of justice in conduct towards other people and a true interest in the social position of each individual and, at the same time, to encourage performance and results. When workers know what kind of performance is expected of them and when they participate in planning of the expectations, they will be motivated to realize it.

#### 7. Reward people for the performance

When we have the set performance norms, then it is possible to reward people based on the realized performance. This leads to further increase of the performance, in expectation of further rewarding. Since the main responsibility of labour force manager is to achieve results, rewarding according to performance presents the main method of motivating people for realization of goals. All of the mentioned will result in good personnel management, which will again result in high performance and satisfaction of the labour force.

### 4. PERSONNEL MANAGEMENT IN JAPAN AS THE EXAMPLE

Japanese have developed a highly interesting concept of workers' responsibility. The worker is directly responsible for the applied methods of work. After study of work by the industrial engineer, the final decision is up to the worker whether to change the job or not. The industrial engineer is the worker's consultant and advisor, and that is why there has come to the situation that the industrial engineers are complaining that they are too busy since the workers are voluntarily calling for them to study their operations because they are not endangered by any change [5].

In some of Japanese companies, life long employment is a tradition, with the exception of women and part-time workers, and thus the employees remain in the same company throughout the life. This is the case in only one third of all Japanese and large trading companies, too. The result of this practice is loyalty to company.

In case of inefficiency, the workers will not get the pay increase. Since the company cannot simply change an unsatisfied worker, the management has to help the worker so that he works well. Even though the life long employment has its flaws, it establishes clear relations between the workers and company's welfare.

The following example in Japanese practice is based on the idea of continual training. Every Japanese worker is merged to a group that holds periodical meetings for discussing on the working subjects, and this happens in the organization of the workers and management. The purpose of these meetings is to ease the communication among workers and not to solve problems or make-decisions. Japanese also have special training courses for enforcement and advancement of specialities of each worker. The main purpose of the continual training is to provide more knowledge to the worker on other operations in his/her ambience [10].

Additionally, there exists a custom in Japanese companies to promote people, primarily based on the length of service in the company [10]. The engineer that comes in the company after schooling would be gradually promoted together with persons of the same age. This is not the case when the level of executive power is reached because the promotion is then based on the criteria.

It is believed that the model of Japanese management cannot be used in the West due to great cultural and traditional diversities deeply imbuing Japanese management [8]. There has come to the increased application of Japanese practice in management in the United States of America, substantiated by the fact that over 600 Japanese factories are operating in the USA (decade old information).

### 5. CONCLUSION

Numerous disagreements related to specific approaches in labour force management (personnel management) arise out of the goals and principles of this management process in itself.

According to the empirical experience, as the most important goal of personnel management the accomplishment of operating output (performances) is profiled. The goal of accomplishing the performance is often expressed as productivity; however, this term is too narrow in its meaning. The output comprises all goals of the business operations, such as the costs, quality, delivery term, flexibility and similar.

The literature on business activities management has paid little attention in the past to personnel and workforce management, especially to the problems related to the management goals and principles. Instead, the attention has been focused on the quantitative models and theoretical aspects of business operations. Simultaneously, psychologists and organizational theorists have mostly researched the behaviour of people in organizations. Nowadays, there is the need for greater application of the results of behaviour research in the functions of business operations, along with taking the stand of operational management related to the

Most of the executive managers of today note that the most important job or, at the same time, the greatest problem they face everyday is managing people. The practice confirms that it is about the fundamental functional management field requiring sophisticated skills because the total business operation depends on it.

The satisfaction and happiness of labour force is not the primary goal of an organization, because in the case the organization is downfalling, there will be no work. It does not mean that the performance and satisfaction cannot be accomplished simultaneously, by an appropriate managerial approach. Thereby, the personnel satisfaction is not the goal by itself, but it should rather be viewed as the instrument. Managers should not be following the policy that the labour force satisfaction is the goal, hoping that the performance is automatically going to come as the result of the workers satisfaction. The manager/s managing personnel should start from the acceptable performance level, and the satisfaction as well, should come if the worker is properly rewarded for the realized performance.

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## **SPECIFIC CHARACTERISTICS OF FOUNDATION AND PERSPECTIVE OF THE REPUBLIC OF SERBIAN**

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***Summary:** Foundation of the Republic of Srpska occurred after the break down of Social Federal Republic of Yugoslavia and because it was impossible for three people of BIH to make arrangement about new state community. Since process of foundation of the Republic of Srpska had some specific characteristics and lasted from 1991-1995, in this paper we will point out decisions about foundation of the parliament of Serbian people, Constitution and other legal acts, as well as a review of the Republic of Serbia after agreement in Deyton.*

***Key words:** the Republic of Srpska, Deyton agreement, state*

### **1. INTRODUCTION**

The process of foundation of the Republic of Srpska started at the moment when it was quite clear that it was not possible to reach an agreement between representatives of three people in BIH, about the kind of state community would be formed after SFRJ broke down. The process of foundation was conducted through several phases.

### **2. DECISION ABOUT FOUNDATION OF THE PARLIAMENT OF SERBIAN PEOPLE**

Decision about foundation of the parliament of Serbian people in BIH was reached by parliament members of Serbian people, from Serbian Democratic Party, Serbian movement of revival, Party of democratic changes. That was a brave step of Serbian parliament members and historical decision that implied a new and better way for government state organization in BIH. The decision was reached on October 24<sup>th</sup>, 1991. in Sarajevo (Decision about foundation of the parliament of Serbian people in Bosnia and Herzegovina, 'Sluzbeni glasnik RS' number 1/92) [5]. The parliament was made of 84 members of parliament from the mentioned political parties, and by act 2. of the Decision it was enabled for others to approach from Parliament of Bosnia and Herzegovina who were Serbs if they signed statement about approach. The decision determined that members of parliament will decide about all the questions related to fulfillment about equality of Serbian people with other people who lived in Bosnia and Herzegovina. The members of new Parliament were chosen on elections in municipalities in 1990. so they had full legality to represent and decide about the acts in Parliament of Bosnia and Herzegovina. The Parliament of Serbian people in BIH met in Sarajevo since October 24<sup>th</sup>, 1991. till March 1992. and then it was moved from Sarajevo to Pale. The Parliament of Serbian people of BIH was called the People's parliament.

### **3. DECISION ABOUT FOUNDATION OF SERBIAN PEOPLE OF BOSNIA AND HERZEGOVINA IN THE STATE OF YUGOSLAVIA**

The decision was made by the Parliament of Serbian people in BIH on the day it was founded on October 24<sup>th</sup>, 1991. Then the Parliament decided to have elections on November 9<sup>th</sup> and 10<sup>th</sup> 1991. on which the citizens would say if they wanted to live in state of Yugoslavia. Citizens decided with about 96% to stay in state of Yugoslavia with Serbia, Montenegro, Krajina and others who wanted to live in that state. It was clear that there

could be no state, not even BIH if the people were not ready to except it. It was confirmed that every nation had a right to decide where and with who they want to live [3, pp. 2].

#### **4. DECLARATION ABOUT FOUNDATION OF THE REPUBLIC OF SRPSKA OF PEOPLE OF BOSNIA AND HERZEGOVINA**

Preparations for the announcement of the Republic of Srpska were finished till the beginning of 1992, so the Parliament of Serbian people in Sarajevo in January 9th, 1992. announced the existance of the Republic of Srpska. The Republic was announced according to some universal rights which were stated by International documents such as Chart of UN, and which stated universal, never transferred right of people to decide, organize and associate and have their political status and have economical, social and cultural development. This meant that Serbian Republic of Bosnia and Herzegovina was founded, and it had three basic and important elements necessary for its function, and those are territories, population, organization and functioning of government. The declaration anticipated territorial border with other political communities of the other people in Bosnia and Herzegovina in peaceful way and agreement with respect of ethnic, historic, legal, cultural, economical, geographic, communicational and other important criteria with the respect of principles and regulations of international law (Decision about the announcement of the Republic of Serbian people of BIH, 'Sluzbeni glasnik of Serbian people of BIH' number 2/92).

The Declaration is key document of Constitution and law that determines important things about government of future state unit of the Republic of Srpska. Also that Declaration set the basis of legal system and legal order by regulation that said: 'Till Constitution, laws and other regulations are reached, on the territory of the Republic the regulations of SFRJ will be law as well as regulations of Social Republic of Bosnia and Herzegovina, except those that the Parliament finds to be opposite to legal and lawful interests of Serbian people' (Declaration about announcement of the Republic of Serbian people of Bosnia and Herzegovina. Act 8. 'Sluzbeni glasnik of the Republic of Serbian people of Bosnia and Herzegovina', number 2/92).

#### **5. CONSTITUTION OF SERBIAN REPUBLIC OF BOSNIA AND HERZEGOVINA**

The Constitution was reached by People's parliament on the meeting on February 28th, 1992. The Constitution is the highest legal act of a state, federal unit or some other state unit, and represents basic document which regulates political will of people and organization of state government, especially important things of government. The Constitution of the Republic of Srpska of people in Bosnia and Herzegovina was reached in relatively short period (40days) since Republic of Srpska was founded. The Constitution was made as peaceful according to Constitutional acts of Serbia, Switzerland, Holland and other countries in modern democratic world. The Constitution was written as Constitution of Serbian people, but it is not its disadvantage, because most constitutions are called by their people (Constitution of France, Constitution of Germany, Constitution of Serbian etc.).

The Constitution does not set dictatorship of one people, but sets government of that people and all the other people who live in that state.

Definition of the Republic in the act 1. says that it is a state of Serbian people and all the people who live in it. That is why incompetent theoreticals who say that it is national are not justified. It is national because it protects Serbian people, like all Constitutions protect their people.

The Constitution sets political will of people in legal norms. It is decided to set legal state by setting democratic, citizen freedoms with market business, property and political pluralism. Structure, content and spirit of the Constitution show the existing changes in society, and especially those in Yugoslavia. From social scene the political system of socialism disappeared, and elements of new social system were set. The whole social system was based on guaranteed freedoms and protection of human rights and freedoms according to international standards in providing national equality of people, social justice, market business, multi-party system and parliament democracy and spread of government, free elections, local communities and protection of ethnic groups and other minorities (The Constitution of the Republic of Srpska – updated and changed in 2002., act 5. ) [9].

The Constitution set system of government which is a characteristic of most of modern Constitutions.

That sets complete balance between three governments and more authorization has the Parliament and President of the Republic. So whole politics happens on relation Parliament-President of the Republic. The government kept classical jobs. Since the Constitution was made in very early stage when it was assumed that inner relations in BIH would solve in peaceful way, without civil war, many regulations were made and had to be changed when there was civil war. On the other hand, when there was a definitive solution about governmental setting of BIH, then many regulations had to be changed. All previous changes after Dayton agreement moved in direction of

improved basic regulations connected to state organization, state-legal status of the Republic of Srpska. However, some politicians and theoreticians are wrong when they say the Constitution had to be changed because of discriminatory regulations. The Constitution from the beginning, was not changed about rights and freedoms of citizens no matter what the characteristics were (sex, race, nation and so on). The Constitution regulated the highest standards of law and freedom of man and citizen, and act 49. of the Constitution determined that European convention about protection of human rights and basic freedoms would be applied.

## **6. CONSTITUTIONAL LAW FOR CONDUCTION OF THE CONSTITUTION OF THE REPUBLIC OF SRPSKA**

Constitutional law is one of important acts of the Republic of Srpska. Its role is identical with the role of all other constitutional laws in the world. The constitutional law is made when the Constitution is made. It has a task to put in function the Constitution, that is, to determine which laws, regulations and general acts should be reached as priority. So by Constitutional law of the Republic of Srpska, it was determined that 10 system laws had to be made quickly (*Constitutional law, act 10. determines that urgently these laws have to be reached: Law about state management, Law about government, Law about regular Courts, Law about defence, Law about inner jobs, Law about prosecution, Law about defence, Law about public income and liabilities, Law about National Bank, Law about service for pay roll and financial control, Law about public information, Law about flag, anthem and coat of arms*) as well as which laws of SFRJ and laws of SR BiH will be applied in the Republic of Srpska till new laws are reached.

## **7. DECLARATION ABOUT STATE AND POLITICAL GOVERNMENT**

Declaration was reached on August 12th, 1992. which regulated numerous state and constitutional questions. Declaration has a character of Constitutional act or maybe constitutional amendments or constitutional law. It determined the name of Republic. Also state symbols were determined: flag (red-blue-white), anthem (Boze pravde) and coat of arms (Nemanjici). Declaration determined that the Republic of Serbia is a state with republican form of government..

## **8. GENEVE AND NEW YORK AGREEMENT ABOUT CONSTITUTIONAL SOLUTIONS**

Besides constitutive acts that was made by People's parliament of the Republic of Srpska, the important ones are those which are reached under the patronage of UN or EU. Two such documents are important: Geneva agreement and New York agreement ( they were introduction to final Dayton agreement). The agreement reached on September 8th, 1995. in Geneva relates to state, legal, constitutional solutions in BiH. The Geneva agreement determined that:

- BiH is spread to two states: Republic of Srpska and Federation of BiH;
- territory of BiH is spread between two states in relation 51% to Federation and 49% to the Republic of Srpska;
- both states, the Republic of Srpska and Federation of Bosnia and Herzegovina will set special parallel relations with neighbouring countries;
- Bosnia and Herzegovina will keep its existence as international subject and be recognized as such
- both states have to take equal responsibilities about elections, international acts about the rights of citizens, solving disagreements by arbitrage, and work on the return of refugees to their home.

New York agreement was reached on September 26th, 1995. and represented the continuance of Geneva agreement, set elements for state and government setting of the Republic of Srpska, the Federation of Bosnia and Herzegovina and Union of Bosnia and Herzegovina.

The agreement determined:

- that both states, the Republic of Srpska and the Federation of Bosnia and Herzegovina would respect international obligations of BiH, except those obligations that one state excepted without agreement of the other;
- that both states would give full support to freedom of movement and right of refugees to get their properties back;
- that OSCE would in shortest possible time set their representatives in bigger cities in Republic of BiH and the Republic of Srpska;
- that free elections would be held within 30 days after OSCE determined that conditions were set for it;
- that the Parliament of BiH would choose two thirds of representatives from Federation and one third from the Republic of Srpska;
- that the government would be made by proper ministers;



- that negotiations would be continued quickly which would lead to final solution of constitutional and state form of states and union.

## **9. DEYTON PEACE AGREEMENT [6]**

Peace agreement for Bosnia and Herzegovina was reached on November 21st, 1995. in Paris. With general agreement there were determined eleven more annexes (military aspect of peace agreement, regional stabilization, border between states, elections, arbitrage, human rights, refugees, committee for protection of national monuments, public corporations of BiH, civil implementation, international police forces). All documents, especially General conduct and Constitution represent important constitutive acts. They determine state and legal position of the Republic of Srpska in Union of Bosnia and Herzegovina.

The Constitution of Bosnia and Herzegovina sets new state organization on the territory of ex federal unit Bosnia and Herzegovina. After SFRJ broke down, and during civil war in BiH, different state units were made: the Republic of Bosnia and Herzegovina, Croatia, the Republic Herzeg-Bosnia, numerous kantons, the Federation of Bosnia and Herzegovina, the Republic of Srpska.

Peace agreement and the Constitution of Bosnia and Herzegovina made all those units except the Federation of Bosnia and Herzegovina and the Republic of Srpska. Those two states, or Serbs (the Republic of Srpska), Croats and Bosniacs (the Federation of BiH) decided to join in the Union of Bosnia and Herzegovina.

BiH is a weak state with small authority and unusual and rare organization.

That is a state in which the Constitution has not determined what kind of ruling it is (republic or monarchy), and what is the type of state government (federation, confederation or union). If we call it union, we don't know if it is real or personal, or some special kind of union.

The Constitution determines if union will have its symbols (by agreement of two states)-flag, anthem and coat of arms. The Constitution determines human rights and freedoms, authority of states (members of union), institutions of Bosnia and Herzegovina (union), parliament with two homes, Presidency, Council of Ministers and Constitutional court.

The Republic of Srpska became very early constitutional state. In fact, the Constitution was reached as a legal act of new state in starting phase of its constitution (only 40 days), after it was announced the Republic (declaration about announcement of the Republic on January 9th, 1992.). Rare are new formed states, the Republic of Srpska, which reached the Constitution, when the state was just a political fact. Social forces which were carrier of creation of state agree that Constitution and state are intertwined and that from the start of functioning of the state there must be a stable legal start, basic human rights and rational state organization.

## **10. THE REPUBLIC OF SRPSKA AFTER DEYTON AGREEMENT**

The Republic of Srpska was constituted as a very successful state unit, which was joined by Dayton agreement, and that is good for Bosnia and Herzegovina too.

By Dayton agreement, annex IV, the Republic of Srpska lost its characteristics of a state that it had from 1992-1995. and was founded as entity in line of highly individual federal unit, with numerous authorities that give it full inner sovereignty. So, from 1995, the Republic of Srpska was obligated to adjust its Constitution to regulation of Dayton constitution. That adjustment related to those parts of the Constitution of the Republic of Srpska that in certain way decreased sovereignty of Bosnia and Herzegovina, or all those regulations of the Constitution where the Republic of Srpska was treated as a state and had individual international authorities.

That revision of the Constitution, the Republic of Srpska finished fast. However, there was also a negative tendency that was taking one by one authorities from the Republic of Srpska and transferred it to Bosnia and Herzegovina. Erosion of authority, has lasted for more than ten years. Up to now, 50 authorities have been taken from the Republic of Srpska to Bosnia and Herzegovina, so BiH was strengthening a state and decreased its state capacity.

Factors that took away authorities from the Republic of Srpska are:

1. The Dayton constitution itself, which ordered that some authorities should be smaller
2. High representative, as the highest authority in Bosnia and Herzegovina who is a carrier of protectorate and who made some laws and state acts that decreased authorities of the Republic of Srpska.
3. Constitutional court of Bosnia and Herzegovina decreased authority and status of the Republic of Srpska importantly.
4. Parliament of Bosnia and Herzegovina accepted some laws that took away authority of entities and decreased its power.

Only three or four authorities were legally, according to the Constitution, transferred to Bosnia and Herzegovina by decisions of People's parliament of the Republic of Srpska.

Modernization and modelling of state determination of Bosnia and Herzegovina still lasts, up to now two phases have been finished of the development of constitution of state of Bosnia and Herzegovina and the Republic of Srpska. The phase of finding of solutions, suggestions and ideas is finished that lasted from 1992. to 1995. The Dayton phase is at the end, and so called Bruxelles phase is beginning in which should Bosnia and Herzegovina and the Republic of Srpska enter European organizations and associations.

However, unprinciple and retro politics from a part of Bosniacs, tries to accuse the Republic of Srpska that it is guilty for certain economical, social and political and other difficulties in Bosnia and Herzegovina. Because of these wrong and evil statements, there is a wish today to make unitary Bosnia and Herzegovina and to take away authorities and terminate entities and power from the Republic of Srpska and transfer them on Bosnia and Herzegovina.

Such statements and opinions are damaging and against constitution, because the Republic of Srpska is based on Constitution and international act and law with determined authorities and as such it is stabile and functional part of Bosnia and Herzegovina. Problems are more in the Federation, as Dayton committee determined, because it organized government in bad way, and where real and democratic mechanisms of protection of all people are not built well.

In such political, economical and other circumstances, there is a strong tendency supported by international community, so the Constitution of Bosnia and Herzegovina should be changed. The Republic of Srpska does not have anything against it. However, it is considered that changes can be done only according to the Constitution, like Government, Council of Ministers, Presidency etc.

## 11. CONCLUSION

In the Republic of Srpska there is worry, and progressive Europe is worried about some attitudes of radicalization of ideas of centralization and unitarization of Bosnia and Herzegovina which would simply change its Dayton structure.

Tendency is manifested through numerous reforms and revision of the Constitution, but at the same time it is hidden, and lately there was open and public call for termination of important institutions of the Republic of Srpska and at the end of the Republic of Srpska itself. Some political circles from Federations have to realize that nothing can be done openly or behind the closed door. Reforms should be done in order to prosper, and not to terminated something. If reform is termination of the Republic of Srpska and its institutions, that would be the same as shoot the man and then treat him. That reform will not be accepted or conducted, because it is malicious, and with malice you can not make a state. Such demands and reforms are against Constitution and against law, justice and morale. People in Bosnia and Herzegovina will be in peace if war retorics is terminated, hate and fanaticism are dropped out. People need that, and not hate and fanaticism.

The Republic of Srpska will agree on reforms and changes of Constitution and actively participate even more, but only in the spirit of federalization of Bosnia and Herzegovina, according to Dayton constitution.

So, there are no way of centralized Bosnia and Herzegovina. There will not be and there should not be that Bosnia and Herzegovina loses Serbian (and Croatian) identity-language, alphabet and so on, and to make some integral Bosnian identity (Bosnian nation, Bosnian language, Bosnian society).

The Republic of Srpska must stay lasting category with all its elements in scope of Bosnia and Herzegovina as a joint state. If retro forces still insist on unreal political solutions of state government of Bosnia and Herzegovina they will damage all nations of Bosnia and Herzegovina, and Bosnia and Herzegovina will be divided society, unstable state and will go further from democratic Europe.

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## **ЗАДАЧИ ГРАЖДАНСКОЙ ПОЛИЦИИ МИРОТВОРЧЕСКИХ СИЛ ООН В УСЛОВИЯХ ЭКСТРЕМАЛЬНОЙ МИГРАЦИИ НАСЕЛЕНИЯ**

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Современная международная ситуация характеризуется усложнением характера задач, стоящих перед международными полицейскими силами ООН. Это обусловлено рядом причин.

Во-первых, расширением сферы миротворческих операций, представляющим ответ мирового сообщества на развитие ситуации нестабильности в различных регионах планеты. В этой связи следует напомнить, что с 1948 года Организация Объединенных Наций организовала и провела 63 миротворческих операции, 15 из которых продолжают и на сегодняшний день. В большинстве из них принимают участие не только военные, но и гражданские полицейские.

Персонал этих 15 миротворческих миссий насчитывает 93 530 человек, в том числе 11 482 гражданских полицейских. На этом фоне в рамках своей миротворческой деятельности ООН, используя различные механизмы, в том числе и миротворческие миссии, осуществляет «превентивную дипломатию», стремится урегулировать конфликты и споры между противоборствующими сторонами.

Во-вторых, миротворческим миссиям все чаще сопутствуют действия, направленные на решение широкого круга задач, связанных с миростроительством, налаживанием мирной человеческой жизни. Некоторые виды этой деятельности, такие, как наблюдение за проведением выборов в Афганистане в 2004 году, программы разминирования в Мозамбике и подготовка сотрудников гражданской полиции в Гаити, осуществлялись в рамках операций Организации Объединенных Наций по поддержанию мира. При этом отдельные аспекты этой деятельности продолжают и после свертывания миротворческой операции.

Другие виды деятельности осуществлялись по просьбам правительств. Например, в Камбодже, где и сегодня функционирует Отделение Организации Объединенных Наций по правам человека; в Гватемале, в которой ООН оказывает помощь в осуществлении мирного соглашения, осуществляя воздействие практически на все аспекты жизни в стране.

В этой связи особый интерес вызывает миротворческая миссия ООН в Либерии (UNMIL – UN Mission in Liberia), где Организация Объединенных Наций в сентябре 2003 года, в соответствии с резолюцией 1509 Совета Безопасности, открыла свое отделение по оказанию поддержки процессу миростроительства, а также защите гуманитарной деятельности и прав человека. В задачи миссии входит проведение реформ института национальной безопасности, включая создание и обучение персонала новых правоохранительных структур.

Этот интерес объясняется тем, что в состав миротворческого персонала UNMIL, насчитывающего 10 052 военнослужащих, 135 военных наблюдателей и 1 324 гражданских полицейских, представляющих 63 страны, входит и первый контингент полицейских из Сербии.

Необходимо отметить, что всего в миротворческих операциях ООН Сербия представлена 24 сотрудниками из них 10 являются сотрудниками UNMIL – 6 гражданских полицейских и 4 военных наблюдателя. 3 военных наблюдателя входят в персонал UNOCI (Cote d'Ivoire), 5 гражданских полицейских находятся в MINUSTAH (Haiti) и 6 военнослужащих входят в состав MONUC (Democratic Republic of the Congo). Такое представительство Сербии в миротворческом движении ООН позволяет ей находиться на 90 месте в мире по делегированию сотрудников в операции по поддержанию мира.

В-третьих, современная политическая ситуация в мире требует активизации усилий в области международного гуманитарного права, решения ряда накопившихся в данной области проблем. В их числе:

а) защита фундаментальных прав и свобод человека. Ряд миссий ООН по поддержанию мира включают в

себя так называемый «компонент по правам человека». В частности, он имеется в Грузии и Гватемале. А в Гаити эта работа ведется в рамках совместной операции Организации Объединенных Наций и Организации американских государств;

- б) оказание чрезвычайной помощи в условиях гуманитарных катастроф. В их условиях организации и миссии ООН поставляют жертвам - в большинстве своем детям, женщинам и старикам - продовольствие и медикаменты, дают им убежище и обеспечивают материально-техническую поддержку.

В-четвертых, особое значение в ходе реализации миссий международных полицейских сил играют в последнее время действия в условиях экстремальной миграции населения.

Это обусловлено тем, что проблема беженцев и вынужденных переселенцев является сегодня одной из самых сложных глобальных проблем современности. Не случайно ООН организует огромное количество дискуссий, посвященных ее решению, издает значительное число брошюр, книг и журналов (в частности, журнал «Беженцы», издающийся и на русском языке), продолжая искать наиболее эффективные пути помощи этим группам населения.

В то время как одни специалисты ищут пути улучшения кооперации и сотрудничества гуманитарных организаций, другие концентрируют свои усилия на коррекции международного законодательства, регламентирующего деятельность на этом правовом поле. В то же время и те, и другие согласны с глобальностью этой проблемы. Любой подход к ее решению должен быть конструктивным и охватывать все ее аспекты.

С момента своего создания ООН проводит постоянную работу по защите беженцев во всем мире. В 1951, когда был создан офис Высокого комиссара ООН по делам беженцев, около 1 миллиона беженцев подпадали под его мандат. На сегодняшний день их число возросло до 17,5 миллиона. К ним следует добавить 2,5 миллиона беженцев, находящихся под контролем Гуманитарной комиссии ООН по делам палестинских беженцев на Ближнем Востоке и свыше 25 миллионов вынужденных переселенцев.

В 1951 году большинство беженцев были европейцами. Сегодня же основная их часть из Африки и Азии. Развитие событий в последние годы показывает, что перемещения беженцев носят скорее характер массового оттока населения, нежели индивидуального. Восемьдесят процентов современных беженцев – женщины и дети.

Причины массового оттока населения стали также значительно разнообразнее, включая природные и экологические катаклизмы и крайнюю бедность. В результате, многие из сегодняшних беженцев не соответствуют статусу беженца, определенному Конвенцией, определяющей статус беженца. Эта конвенция относится к жертвам преследования по расовым, религиозным, национальным причинам, по принадлежности к определенной социальной группе или политическому мнению.

В обнародованном докладе Управления Верховного комиссара ООН по делам беженцев говорится, что Ирак, Китай, Пакистан, Сербия и Россия по итогам 2006 года возглавляют список стран, граждане которых ищут убежища в экономически развитых государствах.

Самой привлекательной страной для беженцев в 2006 году и за первые шесть месяцев 2007 были США (около 50 тысяч обращений о предоставлении убежища в прошлом году и почти 27 тысяч с начала нынешнего года). За ними следуют Швеция, Греция и Франция.

ООН также очень серьезно озабочена увеличением количества вынужденных переселенцев в последние годы. «Вынужденными переселенцами считаются лица, вынужденные оставить свои дома, но оставшиеся на территории своей страны». Поскольку они остаются на территории своей страны, они не включены в нынешнюю систему защиты беженцев. Большинство вынужденных переселенцев являются представителями развивающихся стран. В некоторых странах число вынужденных переселенцев превышает 10 % от общей численности населения.

Имеются регионы, в которых проблема экстремальной миграции населения приобрела «хронический характер». К ним относится Палестина. Работу по предоставлению помощи палестинским беженцам с 1949 года ведет Ближневосточное агентство Организации Объединенных Наций для помощи палестинским беженцам и организации работ. Сегодня Агентство предоставляет основные услуги в области здравоохранения, образования, чрезвычайной помощи и социального обслуживания более чем 3 миллионам зарегистрированных палестинских беженцев.

В других регионах, таких, например, как Армения и Азербайджан, Монголия проблема беженцев и вынужденных переселенцев обострилась относительно недавно. Однако во всех случаях необходимость решения проблемы экстремальной миграции является одной из важнейших причин, актуализирующих задачу повышения эффективности деятельности гражданской полиции ООН.

## MOTIVATION OF THE EMPLOYEES AS A FACTOR OF SUCCESS

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***Summary:** The paper shows role and importance of the motivation of the employees with emphasise on the activities of the management. The role of the management is important in finding material and non-material urges for employees in order to achieve development and success of their company. Motivation and reward is one of the key tasks and functions of management of human resources in organization and one of the most important tasks of the manager himself who are in motivation of the employees the most important factor. Today managers and organizations have at their disposal a great number of confirmed theories and scientifically checked strategies about motivation potential which are used in modern organizations. The purpose of the system of motivation is to increase individual working success of the employees through rewards of desirable forms of behaviour which they determine. It is undoubtable that today organizations in order to sustain and develop in competitive and turbulent conditions, must reach many different goals. That relates most of all on high productiveness and profitability, constant innovations, increase of the quality of product on the highest level, orientation on consumers, making highly quality decisions and constant growth of competitive advantage through development of employees. The assumptions for fulfillment of those goals are highly motivated and interested people. Investments in education of the employees, professional education in high school facilities, through seminars, trainings and workshops are good investment. Researching potential and structure of employees, market of product and material resources, capacities and location, technology and financial resources, these function enable management of the company to evaluate attractiveness of one of the other developing, or investment alternative.*

**Key words:** motivation of the employees, management, organizational culture, development, success

### 1. INTRODUCTION

#### 1.1. Employees in the function of the organization

Business of any organization can not be imagined without proper productional resources, that is human resources, as one of the most important, since people have crucial role on economical efficiency of their company. People create and produce goods and services, control quality, manage financial means, and set general strategy and aims of the organization. 'People live, think, feel and create organization. Organization exists because of people, and not vice versa. Satisfaction and dissatisfaction in organization is manifested through people. Everything starts and ends with people. People with their knowledge and skills are one of the most important resources.' [1].

#### 1.2. Management and knowledge

Historical moment that we live in, in conditions of recession of world and domestic business, as well as transitional problems because of technologically fast globalization, and bad condition in the business, ask for orientation of pure survival. So, orientation for higher needs in low and spiritual work on ourselves. According to some researches done in our country, it is encouraging that there is a need for education and creative expression of the personality, but it is individual and not noticed by managers and leaders enough.

However, it is a fact that theory and practice of management can be realized only by those leaders who truly believe in people and importance of satisfaction of their highest needs and values in working process. Educated manager starts from human and optimistic knowledge about human nature.

Education means development. Whole business and social development depends on education and science, because man and his knowledge is a basis for business resource and creator of new economy. Educated people are flexible, initiate changes, adjust easily, use knowledge and experience in better way, they are more productive and motivated in work.

Through constant work with innovations and improvements on tasks that employees are doing, development of manager skills, leader capabilities, improvement of organization of business, we achieve important changes in organization and they are measures of preventions in crisis situations in which it can be. If we wait for changes to happen, to react, it is realistic to expect that that organization will have as a consequence a missed future.

## **2. ROLE OF MOTIVATION**

### **2.1 Motivation as a need for fulfillment of the aim**

Many theories deal with motivation which try to answer a simple question: What is motivation and how to motivate a man? From the aspect of management, that question is: How to motivate employees to work better and successfully fulfill set aims?

The question of motivation relates to reasons of human behaviour, factors that direct it and determine its lasting, at the same time it is one of the most important elements that determine organizational culture of a company. Motivation gives us answers to the question why someone acts in a certain way, accomplishes or not working results, that is, shows success of the activity. The simplest determination of motivation is that it is a search for what is missing or what a man needs, or looking for satisfaction of the needs.

If we start from etimological meaning, motivation comes from latin word *motivus*, which means *movement*, and can be defined as a scope of urges that make man be active. Motivation can be seen as joint notion for all inner factors that consolidate intellectual and physical energy, initiate and organize individual activities, direct behavior, and determine direction, intensity and lasting. It is tightly connected and has the same root as the word emotion. So, what moves and motivates a man, what directs his phisic energy, comes from his rational urges and his emotions.

There is no measure for motivation. We can conclude about it from behaviour, perservance, size of interest, direction of behavior, and results that are achieved by that behavior.

### **2.2. Aspects of motivation**

In context of employees, or direct workers in organization and management that manages and sets those tasks, motivation can be seen from two aspects:

- 1) From the aspect of *individual* – motivation is inner condition that leads to fulfillment of the goal;
- 2) From the aspect of *manager* – motivation is activity which insures that people tend to set goals and fulfill them.

Both aspects have important joint meaning, and that is that motivation is making effort to get results. Motivation is a process of initiation and direction of efforts and activities that have a purpose to fulfill individual and organizational aims.

However, rational and emotional intelligence are not the only and final source of human motivation. Healthy or balanced person works because it believes in sense and value of their acts, and not because of fear or courage. ‘When you realize the function of motivation once, you will realize that it is not there to help you or move you, but to challenge you to come to essence of reason – real reason for everything you say, do or feel. If you can reach the state of existance where your mind, body and soul are moved by spirit, you found wisdom.’ [6].

This meeting between rational and emotional sphere of the personality with wisdom can be determined as a will for sense that is the deepest basis of human motivation. Many authors in research of source of motivation conclude that spiritual intelligence is the basis of human being because it is connected with unique human need for sense. Spiritual intelligence is used to form existence and fulfill dreams and visions. It is a basis of what we believe in and what we tend to.

Modern man has to ask question of sense of life and work with determination. Without the answer on this key question it is not possible to overcome feeling of existential void in a world full of urge for material goods and fast pleasures. In order to be happy, man must be sure that him way of work and life have sense, value and importance.

Analysis of practice shows that most of applicable strategies are not material. That does not decrease the meaning and potential domination of factors which are material. They are necessary, but not enough condition for development of wider motivation basis of different behaviour in the organization and building of high motivational potential in working environment.

### **3. FACTORS OF MOTIVATION**

#### **3.1. Individuality**

In mass of individual factors, that determine behavior and success of individual, motivation is that segment of individual behavior that is the most sensible, most fluid and most under the influence of many inner and outer factors of surrounding. Different human needs, values which are not just different for different people, but develop and focus with growth and development of a person, and change of its objective and subjective situation, are different for the same people in different situations and periods of their life and development. So, motivation is directly important for different forms and changes in ideas, organizational culture, aims, urges, intensity of working behaviour and complete success of an individual.

Many factors influence on individual motivation:

- Individual characteristics,
- Characteristics of organization, or organizational culture in which the individual is,
- Wider social environment.

We see that many factors influence on motivation, but they all act through individual and over him, influence on his decisions, values, needs and other characteristics (wider surrounding, social and economical development, general material standard etc.). The fact that someone works in hard economical situation, can be compensated and rationalize dissatisfaction with bad salary in the organization. Criteria of good or bad salary is under the influence of objective economical situation, which can be determined by different systems of value.

#### **3.2. System of value**

Empirical researches with many efforts classified and determined hierarchy of system of value, which can be defined as scope of values which are organized on relation from unimportant, over relative importance to important and that together create certain type of logical, and emotional connections and relationships. It is rather convincing fact that values of individuals and social groups in organization itself, and out of it, are set as on a ladder: some people appreciate something more, something less, and something is neglected completely. Specially in times of economical crisis, history inevitable forces people to choose and decide between different values.

#### **3.3. Organizational culture and management of human resources**

When it comes to factors that influence on motivation, inevitable are basic elements on which we base the development of organizational culture, that is, efficiency and effectiveness of management with total spiritual and physical potentials of employees which can be called management of human resources too. It includes, leadership and direction of employees in the organization and it is based on key categories of organizational behaviour such as, beside motivation, relationships between individuals and groups, organizational socialization, organizational culture etc. So, efficient and effective management of human resources must take in consideration interests of people and not only the aims of organization.

Social and economical frame, as one of the factors from which the organizational culture depends, and in it is motivation of employees, has influence on success of business, and that is seen through:

- Globalization of companies (multinational companies, direct foreign investments, mobility, flexibility of working hours...);
- Improvement of informational and communicational technology (usage of informational and communicational system, programs of training, education of employees...);
- Diversification of jobs (specialization and wide education, personal responsibility for education, focusing of productional programs...);
- Team work, foundation of small and middle business firms, technical expertise and systematic analysis of business (analysis of effects of application of different technics in practice and relation of employees; analysis of specific characteristics of every firm-history, aims of managers, strategy of management of the firm, size and organizational structure, analysis of demands and relationship to buyers-consumers; constant follow of changes in inner and outer surrounding).

### **4. MANAGEMENT OF KNOWLEDGE AND MOTIVATION**

Basis of success of introduction of all great changes, which basically change complete business philosophy, is carefull and total management. Management, which will create wuch level of organizational culture that will be in condition to satisfy all plans for new resources and anticipate and overcome possible obstacles. It must, with

its introduction, create such organizational structure, which will gladly accept changes and challenges, such as management of knowledge.

Knowledge, creativity, justice, responsibility come to people naturally. Every man should be loyal to his nature in his deepest creative potential. Only in creative act man really can rise above passivity and coincidences of its existence in the world of freedom. 'Every human being has instinctive need for higher values of beauty, truth and justice' [5].

In all great companies all around the world there is a trend of development of management which urges creativity and innovation. Part of this strategy of the company is focused to getting self-respect with employees. Although knowledge is often created and got on individual level, in organization it must be shared to be maximally usable. The most common motive for sharing of knowledge in organization is that knowledge that employees have should be exchanged and used in all organization so that it does not vanish if they leave. On the other hand it is familiar that knowledge is the only resource that does not decrease by sharing, but increases, so sharing knowledge is very important for organization. Share of knowledge does not have to be only on the level of organization and employees, but also users, competitors, population and complete surrounding.

This is all important because the aim of every organization should be constant receiving of knowledge, so it must find its place in organizational culture and should be motive of all employees, in order to use it and make additional value, income and profit, but also through creation of satisfaction in work. So it is essential task of every management to motivate employees to realize their needs for sense on working place, loving the job they do and people they work with, and to tend to new knowledge, develop creativity and improve job. 'All human beings like job with sense to useless work. This is similar to emphasize of high human need for system of value, system of understanding of the world and finding sense in it. If the job does not make sense, then life is a bit senseless.' [5].

## **5. INFLUENCE OF THE CULTURE ON MOTIVATION OF THE EMPLOYEES**

### **5.1. Culture as human capital of organization**

On motivation of employees influences the existing level of culture of all members of organization. That influence can be positive and negative. In positive sense, culture is a motivator that mobilizes energy of the employees and focuses it on increase of productivity of organization. However, it can be demotivator, or a reason why employees on their working places give less than they could. If culture is going to be motivator or demotivator in organization, depends on assumptions, values and beliefs that it is made of and motivational profile of every member of organization. If the content of culture is the same as the system of needs and motives of employee, then culture will have positive influence on motivation. It, however, content of values and beliefs that culture sets for organization is not the same as individual profile of needs and motives of employees, then it will be negative factor of motivation.

The thinking that strong organizational culture creates with employees a sense of belonging is dominant and urges employees to see themselves as part of the company, from which their better motivation for work comes from, and better productivity of the organization. Also, organizational culture with its values and beliefs, gives certain meaning to the job that individual does in the company, and in that way on increases motivation and fulfills human capital for that organization. If someone who is motivated by development needs is in organization whose culture wants creativity, results, and individual contribution, then that culture will present motivation factor for that individual.

Challenge and diversity of job are basic source of satisfaction for every employee. On the other hand if managers know which motivational profiles are favorite for organizational culture, they can select or improve people who have those profiles.

Negative influence of organizational culture on motivation of employees has not been deeply analyzed. The reason is because researchers want to get popularity with their attitudes, and they could not do that by presentation of demotivators of employees.

## **6. MODERN STRATEGIES OF MOTIVATION**

### **6.1. Management of human resources**

In development of motivation strategies in management, these questions have to be seen:

1. Does motivation importantly influence success at work? Determine basic factors of working success.
2. Has organizational culture achieved wanted level through proper working behavior? If not, determine which working behavior can achieve that wanted level.



3. Is there a system of control of success? If not, there should be one.
4. Do employees get adequate feedback? Achieve better flow of information.
5. Are rewards given for success? Make better system of rewards.
6. Determine factors that influence motivation: individual characteristics, type of job, influence of working surrounding, cooperation.

These problems and answers to the questions the organization has to solve itself, its managers, and especially management of human resources.

It is not new thing to say that workers who are not motivated:

- accomplish smaller working success,
- have no interest for quality of products and services,
- do not connect to organization and are ready to leave it,
- do not have the need to see organizational problems and focus their working activity to development and success of organization.

Because of that, different strategies have been developed which consider increase motivation for work. It is a rule that system of reward and motivation has to be based on what one wants to accomplish. We reward everything that we want to have more-high productivity, smaller expenses, constant innovations, high quality of products and services, focus on environment etc, and to urge those forms of behaviour that lead to fulfillment of successful business strategy of organization.

## 6.2. Motivation as factor of success

Successful forming and application of motivation system is a very complex and demanding task which comprises different activities of management such as evaluation of success, evaluation of business and so on. Motivation system of good quality has to insure healthy and good organizational culture and that:

- Must attract and keep the best people in organization, insure employment of necessary people and take down on the smallest measure lack of interest for work, abstinency, and all forms of contra-productive behaviour;
- Must insure that employees do tasks and obligations in a good way, and accomplish expected results;
- Must encourage creativity, innovative activities and contribution to function of solution of actual problems, creation of new products and services, general improvement of business, and fulfillment of aims and development of organization;
- Must insure identification of employees with organization and their interest for its development and success.

Managers must be aware that people are not moved only by money as motivator although it is important for the life of a man. It always possible to find a reason why money is necessary for a man. It can help people fulfill some ideal, which is often not visible, but leads to self-fulfillment for the one who carries it as tendency in it. That is why managers must try to see and find out what is it that is valuable for their followers and workers, if it is not job itself, and help them to earn money and create conditions to fulfill their ideals. In other words, joint work fulfilled through successful cooperation on all levels of organization is a basis for increase in self-fulfillment of people who work in it as a team.

After successfully completed job, team work can be rewarded by appraisals, as certain stimulations. In that way, the employees, participants of successful project have sense of satisfaction, belonging to organization in which they work and can say that they contributed to development and success of their company. All big and successful jobs were only dream, wish of an individual to achieve something in the beginning. That dream was a basis of self-motivation, then motivation, then making others to follow that ideal and dream. Existence of motive gives strength and generator of energy necessary for fulfillment of set aim.

## 7. CONCLUSION

Today it is no longer necessary to talk only about organizational culture, motives, human resources as intellectual capital of organization, scientific achievements, technological innovations, knowledge of new time, informatical society.

Nowadays, it is necessary to develop real potential. It has to be movement strength which will be focused on success of organization and competitive spirit on the market. It is time to believe that organizations can be created that can lead to complete usage of human potentials on satisfaction of people and organization. Administrative worker is past. Future is motivated worker that directly contributes to success of organization and fulfillment of its goals. That is why employees must be seen as human beings and greatest strength of an organization.

In order to do business successfully, every company must find optimal combination of material and unmaterial urges for its employees depending on the nature of work, competition and structure of employees. From the angle of employees, the most important motivation factors are real participation in business process, feeling that

personal contribution has important influence of results of business of the company and interest of management for affinities and personal problems of employees. Necessary condition for motivation is constant and open communication between management and employees.

This recession, among other things, puts in danger the strategies for development of talents in the company. Since bad business urges more aggressive decrease of the number of employees, very easily we can lose valuable people, endanger moral or reputation that company has among potential candidates, and terminate necessary programs of training and education of employees. Once lost strength of the brand can be revived hardly. However, saying that it cares for employees during crisis, wise management can very successfully enrich its offer intended for existing and potential employees.

What kind of success will organization achieve, depends on the capabilities of manager to form working team which will be focused on sense of belonging to the group, organization, friendship. Most leaders make mistakes in their approach and neglects the fact that everyone likes to feel important, necessary, useful, beneficent, proud, respected more than neglected, replaceable, anonymous, unnecessary, excessive, disrespected.

Human needs should be seen from the aspect of needs for respect and self-respect. Of course, it would be ideal if every manager could know what motivates every employee.

According to many researches it was determined that money rewards lose sense and start to be seen as regular income and lose motivational importance. The advantage in motivation of people have non-material urges, such as real participation in business process, feeling that personal contribution has important results on success of organization, but also interest of management for interests and personal problems of the employees.

Wise and capable managers must see and work to build such organizational structure, which will through adequate motivation create workers who will follow their ideas and who will move actions and innovations. In organizational sense, it is possible to set organizations in that way that manager, following his own interest, automatically, whether he is aware or not contributes the others. Good manager must see potential among workers who will actively contribute to fulfillment of the aims of the company.

The best commercial for every organization are its employees, their satisfaction with working place, personal improvement and safety with which they create corporate image of the company.

More active role of the employees in business processes, taking responsibility for improvement of business and higher authorization of employees when making decisions, are very effective motivational factors that have long-time effect on employees and result by positive effects for organization.

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## **TRADE AS A FACTOR OF BALANCED REGIONAL DEVELOPMENT IN SERBIA**

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***Summary:** Trade has become one of the most important economic activities in the XXI century. Makers of economic policy can achieve, by combining "fine" instruments of trade policy and the effects of "invisible hand of the market, a favorable situation both for society as a whole and for merchants and consumers. Partnership of public and private sectors (PPP) can provide a significant contribution to achieve benefits for the wider community. The authorities in the region at the local level associated with merchants in retail, can contribute not only to the development of trade, but also to the development of local communities and to creation of better living conditions for its citizens. Modern hypermarkets occupy huge space because of their massiveness, which is the cause of construction outside urban area. Population, especially in this time of crisis when savings in time and money is a basic setting, due to the distance of such facilities remains deprived of the products that would have significantly higher consumption on available sites, which would be reflected in a better position of manufacturing sector. However, the advantage of big shopping centers is in the employment of more people and in providing a wider range of products at affordable prices, and also in expansion of commercial activities in less developed areas.*

***Keywords:** trade policy, virtual wheel of retail, public-private partnerships, micro and macro aspects of trade*

### **1. INTRODUCTION**

Growth and development of national and/or global economy achieves its purpose only if it has resulted in increased quality of life of residents in a given area. The primary task of economic development planners is to ensure "growth with a human face". It is essential that the increased social wealth is distributed in proportion to the work invested allowing newly created material values to enhance the richest, but also individuals in the lowest social ladder. Although these ideas can seem utopian, it is our opinion that the trade (as one of the most propulsive activities) could play an important role in empowering the less developed regions.

In the twentieth century, both concepts of extreme economic arrangement proved unsustainable. In the first half of the twentieth century the idea of "pure market competition, in which factors of production and economic entities were solely guided by" the invisible hand of the market, resulted in the greatest economic crisis of all time. Countries that have decided to have a monopoly-controlled economic system, and to deny the market, at the end of the millennium have experienced collapse<sup>1</sup>. Based on errors made in the past, we can conclude that it is most suitable for economic policy makers to be in between two extreme poles (the planned economy and free market competition).

History has shown that the state is not a good entrepreneur, but also that a market does not always leads to an optimal state of the system. Hence it is necessary to let the market play a key role with the constant supervision of the state which with its measures should contribute to the stability of economic system and to encouraging the development of underdeveloped areas. It is in the domain of economic policy implemented by the Serbian Government, trade policy in the twenty-first century has a key role not only in preventing abuse of market but also in directing commercial activities in less developed areas, in order to increase the quality of life and work in given areas.

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<sup>1</sup> Although the Socialist Federal Republic of Yugoslavia (SFRY), was able in the early fifties to release itself from the Soviet model of growth and to decide on indigenous economic system (self administrative), the crisis that struck countries of the former USSR (inflation, shortages of basic foodstuffs ...) had almost the same contours in the former country, which Serbia itself belonged.

## 2. DIRECTING TRADE ACTIVITY IN UNDERDEVELOPED AREAS

### 2.1. The macro aspect

Statement given in the title can seem as an *oxymoron*, because for a long it time prevailed an angle in which capital should determine, by itself, the location and activities in which will fertilize. In a given logic, most of the major trading centers in Serbia should, because of large concentrations of population and significantly more purchasing power, locate its retail outlets exclusively in Belgrade, and perhaps in Novi Sad and/or Nis. If we apply the same logic from the perspective of the population of Serbia, everyone should move to Belgrade, because there are the best living conditions in terms of utility equipment, level of average earnings, and range of cultural institutions that are available. It is obvious that both aspects of the same problem have one shortcoming. Serbia, as well as any other country, would not gain a situation in which the entire populations move to the capital, as well as a situation in which total economic activity, particularly trade, occurs only in one region. Trade, as an activity always has a key role in supplying both the population and economy. It is on trading companies to decide themselves where, among other things, to open a retail store. In the entire system of commercial marketing both macro and micro cites are of great importance.

*Macro site* includes the selection of local or regional area for the construction of a retail facility, while a *micro site* specifically defines a place for the construction of certain facilities with realization of higher business results and fulfillment of customers' needs.

The state must take care that the residents across its territory can buy basic rations. A similar analogy can be applied at the level of a city (municipality). Local authorities determine the precise location where retail stores can be built with help of the general urban plan (GUP), and based on urban plans low importance. Consequently, it enables business entities to decide on the locations of its facilities, but also considers the wider social interest, including the supply of certain urban districts with basic rations.

Compliance between the above two points of view is possible to achieve with active economic, and especially trade policy, which would result in building quality infrastructure (roadway, providing connections to the electric power, water, gas, telephone network). That way it is possible to accomplish stated prerequisite for economic decentralization, because it is not realistic to expect a modern hypermarket to be opened at a distance of 100 kilometers from the capital, if the inhabitants of that capital cannot reach, via modern driveway, in the shortest period of time to that place of sale. Through a tax relief, giving almost for free land for building outside the capital, traders would be stimulated to proliferate their activities to the wider area of the capital. This way, the state achieves multiple effect. From improving the supply of the largest part of the state to the employment of workforce in parts of the country which, as a rule, is struggling with high unemployment population.

"Organizers of the local economic development need to take into consideration efforts related to the revitalization of trade because, good commercial retail, is necessary basis for a strong local economy". Concept of „virtuous cycle of retail“ is based on this philosophy and it is explained in the publication U.S. Department of Housing and Urban Development (year 1999, page 3). The essence of the concept is to see trade as the driving activities in less developed regions (Figure 1).

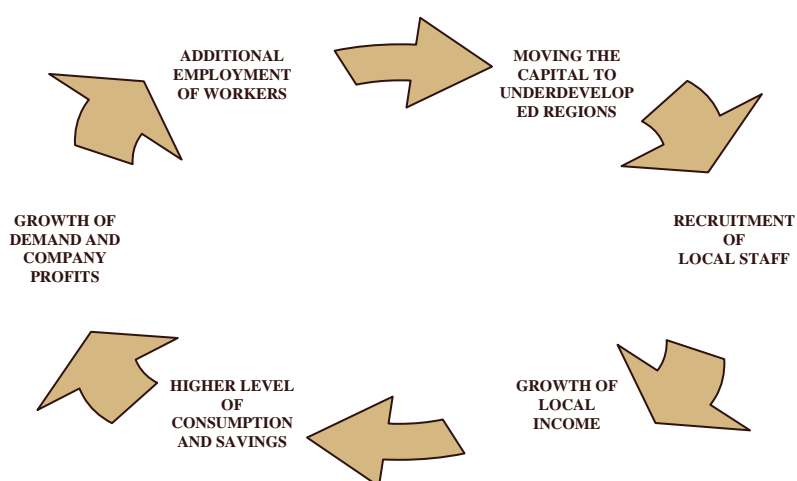


Figure 1:

Concept „virtuous cycle of retail“ can be applied both at the state level by encouraging investment in less developed regions, and at the local government levels through targeting investment in underdeveloped parts of the city or municipality. The point is that the commercial activity moves to less developed area. Consequently,

employment of local workforce will result in increased levels of consumption, and the savings. Given effects of trade are not strange since it is in question a labor intensive activity in which the presence of human manual work can hardly be avoided. In modern trade, processes of computerization and automation are significant, too. However, human labor is still irreplaceable.

## 2.2. The effect of consumption on the development of trade

The growth of level of consumption will influence trade, because greater consumption corresponds with the growth of demand. The achieved level of development of productive forces and social relations determine the character of the development expenditure on the development of trade" [1, pp. 104].

All these processes will lead trade companies to increase their profits and to additional employment. The appliance of „virtuous cycle of retail“ provides, with mentioned benefits, also a better supply of goods and services less developed areas. In this way, all customers are allowed to practice the right to choose. Parts of the town that had a problem with increased crime rate also benefit from implementing this concept, since reverse proportionality between the level of performance of legal duties and vandalism (crime) was established. „Virtuous cycle of retail“ is self-sustainable. By creating sustainable economic development and providing communities with low levels of income to achieve a higher level of earnings, more quality shopping, a stronger tax base and more work.

## 2.3. Micro aspect

With the advent of urban agglomeration, the so-called metropolitan areas, "constant changes caused by scientific and technological innovation, urbanization, depopulation of narrow urban centers, population explosion, and the decentralization of retail activity" sets up. The new circumstances of business are best shown through data from the United States. The largest volume of retail activities since 1999 was performed in malls. "In the United States in 1999 there were more than 44,000 malls. They contributed 47.5 billion dollars of tax revenues from the sale and they were employing 8% of the total number of workers not employed in agriculture ... the importance of this sector for the local economy cannot be ignored".

Note that 65% of total sales in the U.S. is realized in discount stores, and that 72% of total sales is realized after 17.00 hours or on Sunday. The average time that customers spend in malls declines as a consequence of the fact that people have less time to devote to shopping.

There is no need to worry about the fact that **the retail activity is moving to outskirts of cities.**

*First of all*, central city areas are reserved for "business life" as opposed to the suburbs in which "private life" of citizens takes place. Retail facilities are often located in suburbs to be close to the customers residence.

*Second*, the city center is impractical place for opening large retail stores because the infrastructure, as a rule, does not match the requirements of modern trade. Permanent problem in central city areas is the lack of parking spaces so that any weekly shopping in a given area would be unimaginable.

*Third*, the cost of renting office space in the central city area is several times higher than in the periphery. The problem becomes more complicated by the fact that it would be impossible in the center of a big city to open the object of several thousand square meters, simply because there is no such space available. All these factors contributed to the disappearance of the city center, when it comes to retail, hence the concern of wider community for this area. There is also indifference of economic policy holders to do something about revitalization of trading zone in city center. However, central areas have certain advantages, primarily historical heritage, that private and public sector should use when it comes to developing the strategy of revitalization. On this idea in USA was created, at the state level, a non-profit organization for preservation of main streets (**The National Trust for Historic Preservation's Main Street program**). "The form inherent to the city center is its advantage - rich architecture, small business, a link with the past, "sense of space" - not only for the development of the business area as a successful market, but also for this part of town to be again made the center of social identity .

For the production of quality strategy of revitalizing urban centers, honest cooperation between public and private sector is needed.

## 3. COOPERATION BETWEEN PRIVATE AND PUBLIC SECTOR

Public-private partnerships (PPP) has been present in developed market economies for many years. It is an innovative form of development of local communities. Public-private partnership is a joint, cooperative action of the public sector with the private sector in the production of public goods or the provision of public services.

The main goal of public-private partnership is *the realization of common interests*, i.e. *more economical, efficient and successful production of public goods or implementation of public services regarding the traditional*

way of providing public services. Generally speaking, this kind of cooperation includes the planning, production, finance, business or collection of public affairs. *Private public partnership* can be applied in various fields such as ecology, education, investment, local economic development, social protection, public utilities, fight for poverty reduction...

Basic characteristics of relative partnership are:

1. *long term contractual cooperation* (20 to 25 years),
2. *division of investments, risks and responsibilities*,
3. *division of credits between partners*.

It is necessary to distinguish between public-private partnerships and the traditional model of cooperation between two sectors. *Public procurement* is not a model of public-private partnership, since there is no long-term cooperation and usually there is no division of business risks between subjects of cooperation. *The establishment of public enterprise* is not considered *PPP*, while outsourcing is borderline case of public-private partnership.

Public-private partnership is positioned between the traditional forms of public affairs (public procurement, the establishment of public enterprises) and privatization (material privatization, full privatization, functional privatization). Basic forms of cooperation are: *the informal cooperation*, *concessions* (public-legal cooperative contracts), *long-term contracts* (civil-legal cooperative contracts), *partial privatization and joint project association* (the socio-legal cooperation).

It is important that public-private partnership is not a solution for implementation of all public services. **Public sector** should be the initiator of the idea of partnership. The most common reasons for PPP from state perspective are: insufficient expertise of employees in the public sector, high costs in conducting public affairs, etc.. The public sector is expected to define basic guidelines of development in order to achieve permanent improvement of the local community. **The private sector** also must have their own interests. Partnership is needed to remove mistrust which, as a rule, exists between these two sectors.

### 3.1. Problem of public-private partnership

The most common errors in understanding of public-private partnership:

- entering this kind of cooperation local government loses control over the provision of services;
- public-private partnership is possible only in infrastructure projects;
- The main reason for entering local government into PPP is to avoid liability;
- quality of services realized through *public-private partnership* will decrease in time;
- public-private partnership leads to reducing the number of employees in local government;
- price of services realized through this kind of cooperation between the two sectors will grow, and profit will "overflow" to the private sector;
- Public-private partnership is the same as privatization.

Cooperation between public and private sector as a model for improving the local community is still insufficiently used in Serbia, although there are successful examples. To achieve significant results state needs to be agile in starting public-private partnership. Only in this way this kind of cooperation will be asserted in the private sector, without which *public-private partnership* unthinkable.

## 4. STRATEGIES FOR REVITALIZATION OF CITY CENTER

The partnership of public and private sectors is crucial in the process of developing and implementing a strategy of revitalizing the downtown area. The basis of cooperation, two recently confronted the sector, is interest. Private initiative is interested to restore old and gain new customers, while the public sector seeks to foster quality of life of its citizens by arrangement of the central urban area.

Three fundamental components of the strategy of revitalizing the main street or central business areas are: analysis of the market and creating marketing plan for the business area, improving the image and design, building community.

Marketing activity, as well as in the case of traditional products, will begin with market research. The point is to determine the attitudes of existing and potential customers in the relevant part of the city, but also to know the opinion of the businesses subjects on main street. Primary data that are coming to market research and/or focus groups will be an indicator for holders of business activities, as well as for local government that will seek to eliminate the disadvantages (e.g., damage to roads, graffiti, etc..), which create a negative image to the central part of a city. Also available is a large number of secondary data with whose analysis can be obtained useful information. For example, from the census, we can obtain demographic profile of potential consumers for free (the number and type of households, age, gender, educational structure ...).

Based on these results it is possible to determine what bothers the most existing and potential customers in the city center. Conducting market research entrepreneurs will come to important information about the products

offered and/or services that are missing in the city center. The primary task for the holders of business activities will be to attract to their business area entrepreneurs who in their assortment have that "missing offer". Consequently, in the development of marketing plan the focus of interest is not placed only on customers but also on business entities whose products and/or services will increase the attractiveness of the entire quart.

On the other hand, with the survey of traders in the relevant part of the city information on offer in their facilities that which are not in demand, can be obtained. If mentioned scenario is present, business subjects will focus on potential customers who might come to the city center to purchase offered products. Of course, the condition for the realization of these ideas is that the products are attractive and affordable, and that the main reason for absence of buyers is lack of information on offer.

The disagreement between consumers' desires and local goods and services must be analyzed in order to create effective marketing strategy. This discrepancy may be due to assortment of goods and services exceeds or is below the usual demographic and income profile of consumers who would definitely buy in the retail area.

Common steps in the marketing analysis are:

- Defining the retail trade area;
- Preparation of a profile of the population (i.e. customers) in the retail trade area;
- Preparation of profiles of business activities in the trade district;
- Preparation of profiles of existing and potential space for retail activity in area;
- Preparation of a SWOT analysis (strength, weaknesses, opportunities and threats) trade district.

One of goals of the marketing plan that defines the central city area is the creation of perception of customers in the relevant part of the city that retailers want to project about themselves. It is believed that the power of image will create specific actions of buyers in the form of decision to buy in the main city street. In creating a positive image local governments have a critical role, since it is impossible to speak about the positive perception of customers if they come across dilapidated facade, garbage is not taken, and sidewalks are not renewed.

## 5. EPILOGUE

Revitalization of the city center is conditioned by the cooperation of private and public sector. "Rebuilding community through successful revitalization strategy may require the inclusion of retail business owners and chambers of commerce, community groups such as churches and nonprofit organizations, and local governments".

Generic force, the role of "commercial anchors", large stores do not give to the center of the city, as well as in the case of malls. Crucial role to attract customers in the central city area have, as Robert Gibbs said, alternative fulcrum such as churches, police stations and libraries. Gibbs believes that the essence is "to build retail sinew around buildings that attract people who otherwise would not be in a given area".

In order to increase the attractiveness of the city center it is recommended that retailers develop partnerships among themselves to coordinate their actions. One way of achieving the goal is **the organization of the retail association**. Retailers in the settlement of *Pico-Union* (Los Angeles, USA) formed one such association and achieved remarkable results. Generally speaking, there are series of benefits arising from the organization of the retail association in the city center.

*First*, the exchange of information, experiences and business practices of local traders is developed. This way, business and sale is improved.

*Second*, united traders with a "joint voice" can make a significant impact on municipal decision-making, much more then with individually lobbying.

*Third*, "local money recycling" is achieved with cooperation through the implementation of procurement from local suppliers, rather than buying implemented outside the business area. In this way money circulates between the members of the association.

**Local authorities** have an important role in the process of revitalizing certain urban areas. Two main ways of engaging local governments are:

1. *encouraging economic development* – lowering local taxes, providing loans at a lower interest rate, providing subsidies ...

2. *improvement of life work conditions in the district* – removal of damage to roads and sidewalks, a greater degree of agility in conservation of settlements hygiene, reducing crime rate ...

Except for some separate actions retailers associations and local governments, it is necessary that there is a strong coordination in action between private and public sector. Based on insight into the seven Southern California cities, Loukaitou-Sideris has developed a series of **four recommendations for the commercial revitalization**:

*First*, it is necessary to encourage joint financing between public and private sector.

*Second*, implementation of revitalizing downtown areas without the cooperation of local governments and merchants is unthinkable.

*Third and forth* recommendations are relating to encourage revitalization of "visual power" (e.g., reconstruction of the facade provides a strong visual impact).

It is obvious that the importance of trade exceeds the frame of respective activities. Trade will have an increasingly important role in the new millennium, and the creators of economic policy will not be able to let its development and impact on other economic branches to be under influence of "fate" (market). Exclusively combination of "fine" instruments of economic policy and the effects of "the invisible hand of the market," it is possible to achieve "win-win" situation in which all stakeholders receive benefits, from the state, consumers, to traders.

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## **NEW CHALLENGES OF MANAGEMENT AND UNIONS IN TRANSITIONAL COUNTRIES**

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***Summary:** Aware of the situation in which the Unions of new type were formed and they are unions of actions and no meetings. According to that it was seen that fight for peace and termination of war, protection of the rights of workers and international cooperation is a priority. Unions which were started during the war, accepted transformation of ownership, but only after war which was respected for moratorium too for firing during war. They were active to reach new, modern laws from working and legal field as well as law of strike. Through long and exhausting fight, we were able to deal the conclusion of relations more than efficient protection and finally admittance of union freedom and rights as well and freedom of work. Collective contract is done by model of international organization of work and as such, except some small faults, deserves a high mark. Formation of unions in Republic Srpska workers excepted as act of realization of convention number 87 about union freedom and rights, but individuals from the government saw union more as legalization of the state than fighter for improvement and protection of the rights of workers.*

***Key words:** management, transition, union.*

### **1. INTRODUCTION**

Realizing the role and importance in political life of Republic Srpska, association of unions of the Republic of Srpska, organized many meetings with them to hear basic problems with which the union faces, and workers too. It can be said that political parties without exceptions, respected their principles about independence of unions in relation to state, employers and party, that union has to lead its program politics individually and use means of megal fight including strike as the most efficient mean of union fight after unsuccessful negotiations. Almost all parties said that it is very important to organize in branches and fight in that way for position of the branch of activity in the Republic. All political parties in this area support activities of union in wish that union stays unique organization, opened to unions in country and world and be democratically arranged organization. One of the big values and results of the Association of unions of Republic of Srpska is coordinations between organization and organs in the Association of unions and chosen representatives. It is evident that this Association is equally present in region of Herzegovina, Srbinjska, Romania, Semberia, Posavina, Banja Luka and Potkozarje. That is why they made a slogan 'union that works together is the strongest union'.

### **2. WHAT IS THE ASSOCIATION OF UNIONS OF THE REPUBLIC OF SRPSKA?**

The Association of unions of the Republic of Serbia is a volunteer, interest organization of workers who are members of the union and who are organized in union. By accepting Program and Status they make the Association. The Association is independant in relation to state and business organs, organs of management, political parties, business and other association, reliogious communities, and in relation to other unions fulfills the fole as organization that does not belong to any political party and which aims to build democratic society based on government of justice and social justice. In its work, the Association respects the Constitution and laws. The basis for actions of the Association are its Program and Status, and international conventions which relate to union and work.

### 3. RELATION OF MANAGEMENT AND UNION

Relation of management as organizer of work and union as organization for protection of rights and interests of employees is multi-dimensional. Workers through union, as the most important freedom in the field of work, improve their rights and interests such as regular and higher salaries, better conditions of work, participation of workers etc. The managers themselves try to pull workers into a process of making decisions that they realize in easier way.

The most important elements of dialectic relationship between management and union are in the following:

Negotiating and closing collective contract,

- a) Protection of rights and interests of workers,
- b) Participation of workers,
- c) Solving labor disputes,
- d) Joint approach (towards the state),
- e) Education and informing of workers.

I will talk in short about every question, because every question deserves a special evaluation, and on them many bachelor and PhD diplomas were taken, many seminars were organized, hundreds of articles and books were written in our country and, specially in the world.

#### **a) Negotiation and closing collecting contract**

Collective negotiation and closing of collective contracts of work is the highest statement of philosophy of autonomous right, or autonomous regulation of conditions of work (working relationships)... by collective contracts of work it gives relative independence in relation to state right' 82. Collective contracts and negotiation for closing collective contracts are freedom of work and union, placing workers in position of subjects of industrial and wide-working relations' State right about collective contracts of work should insure only minimum of conditions of work' 83.

Collective contract determines the rights of workers higher than determined by law. It also defines relationship between unions and employers as social partners. It is important to emphasise that employers can not determine rights, duties and responsibilities of workers on their own without agreement of the union. Special regulative are salaries and other wages of the workers. Collective contract determines relation between employers and union such as giving information to the workers, commitment of employer to union, conditions for work of the union, question of social peace when duty to workers and unions are fulfilled, question of strike etc. Collective negotiation as a method to solve demands of workers and misunderstandings is an obligation of union and employers.

On the level of the company it is seen in the USA, Canada and Japan, while in Europe collective negotiation and closing of collective contract is mostly on the level of the branch or activities or national level. In Federation of Bosnia and Herzegovina it is on the level of branches. Collective negotiating means compromises, understanding, knowledge and 'maturity of social partners'. It should always come first before union fight if it is necessary.

#### **b) Protection of rights and interests of the workers**

This postulate means reaction of union in all cases when they are broken or not fulfilled.

Those measures are:

- Pointing to the violation of the rights of workers,
- Trying to come to agreement and solution,
- Writing to organs of management,
- Starting a process in the Court,
- Giving lawyers for workers on Court,
- Providing that worker who won in Court gets his job back.

The union does preventive protection by duty and since it proved that it can protect the worker.

The union protects the worker when rights of workers are not respected.

Third, the defence can have the function of punishing the employer because of his actions. He can be morally discredited, pay to Court with interest, etc.

#### **c) Participation of workers**

Participation of workers with active role of the union is an important element of freedom of workers and termination of exploitative relationship. It is an important element of industrial democracy and work in general. Those who are for participation of workers in the companies around the world through councils of workers or employees, committees, commissions etc. It is emphasised that participation or inclusion of workers in process of making decisions, lead to better motivation and productivity of work, connects worker more to the firm, leads to termination of tension between workers and employers and bigger harmony in working environment.

Employers and managers emphasise that participation slows down process of making decisions and efficiency of business. They say that workers are not competent to manage and in that way influence on making wrong decisions and negative mood of workers about it. Some unions are against or have reserves to participation as unions in RS. 84. Emphasizes that participation turns workers away from the union, is a special government, and weakens the distance of workers to employer, especially where union does not have influence on choice of workers representatives (like Germany), while in France unions suggest the members of the council.

Council of employees (committees) mostly have the right to be informed about business politics of the company, be consulted about rights of workers, specially about salaries, sistematization, firing of workers, and thirdly to decide with the employer about social and cultural questions (restaurants, libraries, cultural and sports activity).

#### **d) Solving labor disputes**

There are many labor disputes in the companies that demand engagement of workers, union and employer in whole. We make a difference between individual **and collective labor dispute** (group of workers who think that rights of workers was hurt determined by law, collective contract or some lawful act).

In solution of individual labor dispute, whose subjects are worker and employer, dispute is about violation of rights of worker which is stated in certain legal act. Solution starts by conversation of worker (with or without the contribution of union) with employer, trying to come to agreement, reconciliation, dispute and inspection of work.

Collective labor dispute is about disputes between employer or group of employers and group of workers, of the company which is represented or not represented by union. Collective labor disputes could be interest and legal disputes:

a) Interest collective disputes occur during negotiations and closing of collective contracts, by change of existing conditions and creation of higher form of law. Professor B. Lubarda, an expert for working law, says, 'Collective labor dispute is about closing, revision or spreading (expansion) of collective contract about work... Interest collective disputes can be shared to interest disputes in private and public sector, and they occur from level of company to national level'. It should be said that these conflicts that happen more often in practice during closing or changes of collective contracts. When the Government was taking too much time to close General collective contract in 1997. it happened in our country and in many cases of closing individual contracts on the level of the company. These disputes happened a lot, especially about salaries and lowest price of work.

b) Legal collective disputes happen during change and reading of the law and collective contract 85. We had these disputes too.

There were lots of demands to Courts for proper reading of collective contracts and bad relationships between social partners. They are mostly solved in peaceful manner, but also through collective contracts too.

#### **e) Joint approach (to state)**

Management represents interests of the owner of capital of loss, negative business etc. The union represents interests of workers – to have higher salaries, to get their salaries on time, to have their rights from law and collective contracts sustained.

Sometimes representatives of workers have joint interest to ask from the state to decrease taxes and fees. Sometimes they make agreement for the state to find the best conditions of business, protect domestic production, stimulate export, give subventions for basic living necessities etc.

85. Legal collective dispute relates to application and reading of regulations of the collective contracts, then legal and other acts about the rights of workers and sometimes employers. All disputes are solved by methods of reconciliation, arbitrage, in Court, by collective actions of workers, or employers (Cedo Volas).

The union and employers 86 are represented by organs of International organization of work (founded in 1919.) which we can mark as 'workshop' of international working rights, conventions and recommendations, are they are presented to economical and social world of Europe. Also the act in organs and bodies of United Nations is important through associations-international organizations of unions and organizations of employers that have lasted since the beginning of twentieth century.

Here I have said something about the cooperation of management and union with mark that their interest are usually opposite why there are more conflicts than social peace. The conflict come from the ontological structure of productional progress and work in general, and not personal disputes of social partners.

#### **g) Workers' interests and other interests**

Union is not the only organization in society, and beside interests of workers there are many other interests which are on equal scale: of pensioners, young people, students, peasants, citizens etc. Someone is taking care of them, which people from the union must know. Workers' interest is not the only one and the most important as communists used to say. Workers are not majority of population and the danger for the order happens there.

That is why interests of workers should be in line with other social groups. The proportions, percentages and relations must be determined in material position of social groups. The fight for only workers' interest causes

anger and judgement from other citizens who support parliamentary and other fight against union. Coordination of interests of workers with other social groups is an important assumption for success of the union in its fight. The union as a result of association of workers gets strength and reputation. Association is the highest right and wisdom of man and has a function of power and reputation of this organization.

The union is legalized by international standards (conventions, recommendations), by Constitutions and laws it is recognizable right of worker. Freedoms are protected and sanctioned in Court. However, because of the role of the union, which is in constant conflict with employers and government, there is a constant increase of pressure on workers representatives-unions which we call different forms of discriminations. It can be real, legal restriction of union freedoms and rights, and deliberate restriction of freedom of organizing such as closing of companies to punish union not to hire workers organized in union, or fire if they become members of union, transfer, firing, smaller awards for them.

The Government, employers, political parties want to influence work of union. Negotiations are avoided and closing of collective contracts etc. It all influences work, activities and condition in union movement.

The union is an organization that is constantly questioning, making new demands, 'disturb' peace and balance which is made. The union is dynamic factor in society. In it we can see the most important identity of the union, its characteristic. When it stops asking questions, fight, the union will lose its identity, its being.

The union has its strategy and tactics in ordinary meaning of these words: What is the aim, which are the basic tasks of the movement, in what time, and all procedures and acts to get to some goal. Goals are stated, and tactics are initiatives, suggestions, demands, petitions, strikes etc. The unity of strategy and tactics gives continuity of union fight. Sometimes peace, sometimes control, participation, initiative, sometimes fighting and so on.

Today important characteristics of union are knowledge and understanding of economical and political life, mark of possibilities to fulfill certain demands and interests, and not just desires that lead to lack of success if they are not in line with economical possibilities. The unions today are quieter than before, more peaceful, aware of risks and defeats that happened and that were opposite to all wishes. The union is social group: aware of its special role, but also the meaning of acting according to realistic estimations, not wishes, although in that way the unions are losing some of their attraction, and respect among workers. But they do not lose its honesty.

#### **4. THE MOST IMPORTANT TENDENCIES AND PERSPECTIVES FOR WORK IN THE FUTURE OF THE COUNTRIES IN TRANSITION**

Among the most important tendencies are:

1. Decrease in number of productional workers, and especially carriers of physical work. Productional workers are 'melting', as P. Draker says, American theoretic of management (Post capital society). Working force is not any more 'usable asset' of capital and becomes its 'liabilities'.
2. Sudden development of technics and technology, computerization make production seem like 'a big field of experimental work'.
3. Sudden usage of machines which are substituted because of the race in productivity and quality of products. They can not 'wait' to physically die because of the stated.
4. Sudden growth of qualified and highly qualified, scientific and other workers in the sphere of production, because it is demanded by modern complex technology and new products. 'The productivity of knowledge' will fulfill.
5. Decrease of number of 'industrial profession' so that work is shifting more and more to controllers of work, trade and services and education and health department.
6. Huge competition in employment is one of characteristics, specially in developing countries.
7. Participation of workers will stay as form of overcoming of work for hire.
8. Collective contracts will stay as a form of overcoming of the status of hired worker which is moved from the micro level (company) to macro levels (national and international level).
9. The spread of work will be preserved between executives and managers who should be humanized, without antagonisms, with the respect of needs and dignity of workers.
10. Alienation will remain as destiny of work which comes from the characteristics of work itself (obligations, discipline, responsibility, level of needs, conditions of works, etc.) but also from social conditions – formal and informal relationships, different interests. So characteristics of work itself and social conditions 'keep' alienation as constant of work.
11. 'Partial worker' will appear on international level by the fact that product is made in lot of factories which are located even on different continents.
12. Union will remain as 'organized force of work' in which knowledge, science, ration and solidarity will be most important.
13. Convention about workers' representatives will remain according to which in the world of work unions and representatives will remain who will be chosen and who will represent workers.

14. Work will move to shortenage of working hours to 35 hours a week. Realistic decrease of working hours has certain limits which can not be left out by will. That will do technics which makes man and his brain 'useless' more and more.
15. Transformation of civilization of work in civilization of spending is general tendency in the world.
16. Increase of free time and contents in its usage.
17. Decrease of the role of ideological factor in working movement, which means decrease of revolutionary flame for social dialog and collective negotiation.
18. Transformation of education system whcih should modernize its programs and methods of work in order to form new 'man for work' and not 'man liberated from work'. Education should contribute 'transfer to world of knowledge'.
19. New social system will not be capitalism but 'postindustrial society'. Postcapitalistic, programed society and etc. Development of work goes from industrial to postindustrial society.
20. Tendency goes to sudden decrease in agricultural production, number of population in village followed by increase of urban population who dominates in economical, political and cultural way.
21. Development of multinational companies that create monopolies and share world market, leads to migration of workers and life to areas of the world where workers make more money and better life.
22. The total standard of workers grows or as Urlik Back says, functions as 'social lift' which moves living standard one floor upstairs, increases the difference and distance between developed and undeveloped, which is followed by occurance of terrorism, and balance between man and nature is destroyed by its sudden destruction which leads to ecological crisis.
23. 'Postindustrial society' is called by some people 'techno society', 'programmed society', postcapitalistic society', 'time of information'. The term occured in 1960s of twentieth century.
24. Transfer of work from primary (forestry, agriculture, water industry) and secondary sector (industry) to sector of trade, services, tourism and education, health, computers.
25. Physical workers are 'melting suddenly' in number and structure of influence, and influence of 'intellectual work' decreases, and investments move to 'service economy'.
26. The importance of 'collective investors' is improving such as pension and health funds, governments etc.
27. In property relationships there comes to 'dispersion of property' by spread of 'the circle of owners of stocks' which decreases property to numerous anonimous owners.
28. Stronger role of 'megacompanies' (multinational) which dominate in world economy – hundreds of them.
29. Scientific and technics progress happens in incredible speed. New 'business' branches occur such as telecommunication, biochemistry. Scientific and research centers often become stronger than political and financial centers.
30. Standard of all levels in society grows under the action of 'social lift' but rich individuals and layers of society stand out.
31. The way to wealth decreases and now does not last for decades, but in short time.
32. In postindustrial society knowledge, education and information dominate. They move progress, and not machines from XIX and first half of XX century.
33. There is 'feminization of work' which is seen in faster growth in number of employees in relation to men who were more employed than women before. Things like war, violence and power are observed, social movements and their influence, globalization and its influence, risky position in 'society of risks' such as war, ecology, nuclear threat etc. Special influence have IMF, World bank and World trade organization, UN and the USA, specially the USA as 'world policeman'.
34. Globalization of the world is happening, or creation of over national organizations and associations. Basic elements of globalization are world market which creates capitals on international plan, financies become 'digital' –'virtual'. Everything happens in great speed.
35. Money is transferred in 'information' more and more. In business world there is a process of enlargement and 'megaintegration'. Over a 100 of multinational companies controls over 75% of world trade. Knowledge, information and technology are developing fast.
36. There is a fast delivery of goods and services by internet trade. There is higher and higher influence of marketing, management and new way of management which are more and more standardized and decrease voluntarism in work and managing.
37. Social relations are changing which now mean 'working less and having more', work moves faster, people, and information, and employment means 'having qualification' and information. The aim is society of two thirds- the one where two thirds of citizens have a better status in world, and not local levels and in undeveloped areas where opposite measure is now on.
38. There is a need for global language and English language is ahead of others. Scientific knowledge, books, information, literature are close to everyone through internet.
39. Education, management, laws, health department are standardized. The role of media, communication and information can not be left out in formation of global world, military and political sector especially.

## 5. CONCLUSION

All ways of union fight contributed to progress and protection of rights and interests of workers, development of industrial democracy, increase in rights of workers and growth of living standard. It contributed to decrease in tension between workers and employers (management) and their better cooperation. The low tide of union fight is not just consequence of smaller fighting power of workers and unions, but 'calming' down of workers because of increase of living standard and decrease of social differences, exploitations and alienation.

'Comfortable lack of freedom' in 'society of welfare' seized working population, as philosophers, economists, politicians and union people see today, which means that in society there is everything except freedom 'FOR' changes.

Having all these moments in mind as well as stated tendencies, all countries in transition must understand advantage and disadvantages of globalization and its influence on social status of workers as well as its dangers and good sides.

The only right answer on all new challenges in relations between unions and management in countries in transition are constant contacts and continually insisting on improvement of relationships and special respect on the line union-management and the other way round, which will in scope of methods and contents of work and actions of members, organization and organs of union still take important place.

At the same time, it is important to build such relation with the employer which will lead to joint interest and provide higher influence of union when work and functioning of it is defined in that part which directly influences status of workers and other populations such as: pensioners, village people and citizens. It is important to emphasise that need of regular contacts with representatives of International community with the aim to get their adequate and active relation to protection of human rights of workers and other questions. That is why union movement in countries in transition must adjust faster to processes of globalisation, making firmer international union associations, with unique bases of information and data, whose teams for negotiations will be stronger and able to go as partners in relationship with multinational, transnational and global corporations and companies, with an aim to protect interests of workers in region and around the world and making conditions of work unique.

On these aims in new way International organization of work must be hired, whose resolutions and conventions is necessary to make actual and adjusted to processes with countries which are transitional changes.

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## CONSUMER PROTECTION IN SERBIA FOR PURPOSES OF OVERCOMING ECONOMIC CRISIS

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***Summary:** Consumer protection is necessary and needed not only for meeting standards of developed countries but also for creating conditions for developing economy and society which leads to improving quality of life level of the citizens. Strategic aim of customer protection is improving quality of life, accomplishing and protection of basic rights and interests of consumers, establishing systems and institutions of customer protection and equal partner cooperation of all the carriers of customer protection in the republic of Serbia, in accordance with EU standards which leads to simultaneous development of economy and society. Seen at international scope, customer protection is one of basic human rights dealt with by law in many countries' legislation. With changing structure, quality and intensity, consumer protection in our country has been present for about half a century, and in developed world much longer than that.*

**Key words:** consumers, protection, EU standards.

### 1. INTRODUCTION

Practice of connecting national organizations into international organizations for consumer protection (international consumerism) has a tradition a few decades long. **European Council** has sub commissions dealing with consumer protection problems. European Organization for Cooperation and Development – OECD formed in 1970. **Commission for Analyses existing Consumer Politics** in some member countries.

Picturesque example of international consumerism are consumer organizations in the USA, the UK, Australia, the Netherlands and Belgium, which formed an international organization **Consumer Union** in 1960. whose aim was to aim general efforts of consumer organizations in the world. This union was later joined by numerous organizations from other countries.

**European Union (EU)**, when it was formed, introduced consumer protection in its documents, first as a political aim (70s of the 20<sup>th</sup> ct.), and later as a normative obligation. As a part of EEC, a **Consultant Consumer Committee** was formed in 1973. with its headquarters in Brussels, and Ministry Council accepted Preliminary Programme EEC of political protection and informing consumers in 1975. This programme formulated five main principles:

1. Health protection and right to safety
2. Legal protection of economic interests
3. Damages refund
4. Informing and educating consumers
5. Legal right for representation of consumers in state and economy organs and organizations

International Economic Council published a Programme of Consumer Protection Politics in 1974. with a main idea that business circles and consumers are social partners and in consumer protection politics their interests are mutual and complete one another.

In Scandinavian countries there is Interscandinavian **Committee for Consumer Questions**. The plan of improving consumer protection as one of the relevant human rights was reacted upon by General Committee of UN with a special **Resolution** [1]. This UN Resolution brought about **Directions on Consumer Protection** that stimulates member countries to regulate consumer protection by law.

With international trade expansion a strong emphasis was put on creating and respecting international standards, as a minimal quality for world market (ISO 9000 etc.). Under the influence of competition and consumers

international standards are constantly improved which contributes to better consumer protection in less developed countries.

## 2. DEVELOPMENT AND PRACTICE OF CONSUMER PROTECTION IN THE WORLD

Development of market economy brought a large level of freedom and rights to consumers. The most important thing is not production anymore, but satisfying consumer needs. This was brought by competition, price and quality disparity, marketing practice, business methods.

Consumer interests are more easily solved in industrially developed countries, where human rights are considered to be important, and governments and companies have sources to answer consumer problems. In less developed countries and in those still turning to market economy, consumer rights are not sufficiently appreciated for many reasons, and an early phase of consumerism is still at the beginning.

All the importance of the topic of consumer protection can be seen in a fact that United Nations gave directions which are aimed at:

1. Helping governments of member countries to reach and sustain adequate protection of their citizens and consumers
2. Improving development of production and distribution programmes which meet the needs and wishes of consumers
3. Improving high level of ethical behaviour of those who work in production and distribution of goods and services to consumers
4. Helping governments of member countries in fighting disloyal business practice in national and international plan, which influences consumers negatively
5. Facilitating independent consumer associations
6. Broadening international cooperation on consumer protection
7. Increasing market conditions development which would enable consumers' access to a broader choice of products and services at lower prices.

Globally watched, consumer protection development is constantly improving. In developed democracies, ideas on consumer protection are seen even in the 19<sup>th</sup> century, and reach the highest point of development in 60s and 70s of the 20<sup>th</sup> century. Today Consumers International which was founded in 1960. With its headquarters in London as no profit nongovernment organization, coordinates activities of around 200 consumer organizations from 100 countries of the world. This organization organizes a net of information exchange, international seminars and actions for purposes of interest and representation of consumers. It is financed out of membership fees and foundation donations, by governments and multilateral organizations. There are three kinds of memberships in Consumers International: full affiliate and government affiliate, and most members are independent and nongovernment organizations and joint membership of various government institutions, agencies and other public interest groups which deal with customer protection rights and who make one quarter of total members. There is a Council leading CI chosen every three years. CI covers areas as: economy, trade, environment protection, food and technical standards.

## 3. DEVELOPMENT OF THEORY AND PRACTICE OF CUSTOMER PROTECTION IN OUR COUNTRY

Differently from developed countries where high life standard is present and where developed legislation in general and connected to consumer protection exists, in underdeveloped and developing countries, and especially in transition countries as Serbia (which was additionally impoverished through sanctions, hyperinflation and NATO bombing) there is a line of problems with higher priority and thus protection and self-protection of consumers is underdeveloped (practically taken years back).

That is why it should take actions on its rebuilding and improving simultaneously with economy and society development. In former Yugoslavia, there was a unique and constitutionally based consumer organization. In Yu Constitution, and republic constitutions from 1974., meeting interests of working people as producers and consumers became a constitutional category. This was almost the first case in the world to deal with consumer rights by constitution. Article 43. Of the Constitution mentioned stated: *Organizations of joint work which deal with trading goods and services for immediate consumption are obligated to act upon law and cooperate and make agreements with community groups of self-managing organizations, local communities and other communities and consumer organizations on business of mutual interest*".

Institutional frame of protection in these times was enforced by Article 23. Law of joint work which required *"that citizens as consumers of goods and services, have the right to self-organize in local and socio-political*



*communities or in some other way for purposes of influencing development of production and services by which their needs are satisfied, to prevent monopoly and protect their other interests”.*

Thus defined institutional level of consumer protection allowed some authors to name consumers active market subject, which was never much confirmed in practice. *“In our conditions a consumer can be defined as **active** market subject who appears as a user (consumer) of certain material goods and services for purposes of fulfilling his needs. In this way consumers become a constituent part of production process, it can be said a body-part of production and trade itself”*[6].

Organizing consumers in those years was performed inside a unique programme of SSRN in local communities where **consumer councils** were formed and township and city organizations of SSRN formed **consumer conferences**. For purposes of informing consumers a paper *“Consumer Informator”* was issued.

Inside SSRN, activity of organized consumers was directed and dialogues between producer representatives and citizens were enabled. This dialogue and mutual interest was shaped through citizen delegates in township councils of local communities. There were **Consumer Centres** in Belgrade and Ljubljana where reliable comparing researches on product quality on the market were performed, for purposes of eliminating those with insufficient quality mark and stimulating trade of those marked as the highest quality.

During later development of consumer protection function in our country, **Consumer Peace Councils** – arbitrages, were established, as mixed boards made of delegates of township council or consumer conference and main Federal Economic Council, with an aim to go between consumers and economic organizations, when consumer interests were damaged and suggest ways of out-of-court solutions of the problems in question.

The first **consumer codex** – social agreement on business and ethical rules, rights and obligations and cooperation of workers in economic organizations and consumer was signed in 1970. In Osijek between organizations “Vodovod” and local township of Osijek, and then signing similar social agreements broadened to all the areas of the country. Local communion represented social base of total activity of organizing citizen as consumers.

Belgrade city conference of consumers has actively worked since 1971. for purposes of **comparative marking of product and services quality**, that were found on the market. According to its programme which is being prepared in cooperation with Local Consumer Councils, and is being realized by inspection services, marking quality of agriculture and food products is done every year, as an activity of Consumer Centre and Organization for Household Economics in Belgrade. Inside these programmes an organoleptic and laboratory researches in special institutes for bacterial and chemistry researches were performed.

**Market products quality check was performed from 1964 to 1972, over 3000 products were tested in cooperation with Federal Economic Council.** For this occasion marks as Golden Belgrade Winner, Quality diploma, good, sufficient and insufficient were given, stating a producer, product title and quality marks and public was informed through media. In accordance with social agreements, trade organizations were obliged to stop distribution of products marked as “insufficient quality”.

In the eight decade of the last century some expert organizations dealt with consumer protection problem by improving theory and introducing positive practice of this area. The tenth Yugoslav counselling on quality called **“Quality and Consumer protection”** was organized in Belgrade by Federal Organization for Quality Improvement and Society for Product and Service Quality Improvement of Serbia, and science symposium called **“Joint Work and Consumers”**<sup>1</sup> was organized in Nis Spa in 1977, by Marketing Society of Serbia and Marketing Society of Nis.

In the last decade of the 20<sup>th</sup> century, at the area of former Yugoslavia turbulences on political, economy and social plan appear. In once stable country, economic and political and later armed incidents appear, then civil war breaks out, Yugoslavia breaks apart, economic sanctions are introduced by international community. At what was left of Yugoslavia, so called third Yugoslavia (Serbia and Montenegro) a large economic crisis happened, a complete crush of economic system, hyperinflation, unemployment, grey economy development, life standard decrease... Those circumstances pushed consumers and consumer protection mechanisms into a less important level of problems to be dealt with. This agony will last until the end of the century or millennium.

#### **4. (RE)AFFIRMATION OF CUSTOMER PROTECTION AND ORGANIZATIONS FOR CUSTOMER PROTECTION IN SERBIA**

A new chance for some kind of protection Serbian and Montenegrin consumers got after democratic changes of the 5<sup>th</sup> October, 2000. Then a surviving totalitarian regime in Serbia gave way to a new, democratic regime which will make qualitatively new transition possible and in which people – consumers will gain their dignity back and their needs, wishes and interests respected.

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<sup>1</sup> Some topics of this meetings are relevant even in modern conditions (Collection of works from these scientific expert meetings)

Before this defining moment and some time after that, function of consumer protection in SRY was based on directions of **Trade Law** (Yugoslav Official Register no 32/93, 50/93, 41/94 and 29/96). During this period state and other organs considered consumer protection as an issue of less importance, and only few consumer organizations functioned during that period very modestly.

The real institutional frame for consumer protection reaffirmation and consumer organization in then so called SRY (later Serbia and Montenegro) was made during 2002., by bringing **Federal Consumer Protection Law**. This was the first turning point in consumer protection rights reform in SRY, and as thus this law was congratulated on at the meeting of KRG EU and SRY on 10<sup>th</sup> July, 2002.

After adopting National Charter in February of 2003. Consumer Protection Law of SRY was active, but responsibility for enforcing it moves to republic governments of Serbia and Montenegro, with the right for the republic to broaden and improve the law by their republic laws on consumer protection. This right was first used by Montenegro when they brought republic Law on Customer protection in 2003.

An important step in diagnostics and enabling further improvement of customer protection was making of **Counselling Report on Customer Protection Development in Serbia and Montenegro in the context of stabilization and joining EU** (Jun 2003.), as an improved version "*Advising Report of consumer protection rights in Serbia and Montenegro in the context of stabilization and EU association Process*", issued in November 2002. Customer protection is only one out of 30 sector aspects of Law and rules of EU known as **Acquis Communautaire**.

As most important attitudes stated in these report we can quote that:

1. There are powerful reasons for complex and high priority activities and efforts of the Government at consumer protection field where consumers can be highly sensitive in all the transition economies, especially in our country,
2. Present condition in Serbia and Montenegro on consumer protection is insufficient and asks for essential reforms;
3. Clearly defined politics upon this question including dialogues with consumers do not exist at the moment and this ruins limited efforts of law reform on this problem in the country;
4. If we do not accept strategic approach to customer protection in our country, necessary reforms will not happen Until government brings necessary decisions on this question, authors of the report suggest a line of aims and strategies for consumer protection and about 30 shortly put recommendations on development, application and supervision over the strategy [7, pp. 23-25].

In the quoted report among other things, it is suggested to **sign a contract on stabilization and association (SAA)** connected to customer protection with EU, as the ones signed by Croatia and Macedonia [7, pp. 95-96].

Encouraged by directions of federal Law on Consumer protection, especially by the one which is related to creating conditions for establishing and making active consumer organizations of activists and enthusiasts in many cities of Serbia and (Montenegro), local, township and regional organizations of consumers were established, and as a rule in very modest conditions they start their activity by interconnecting, cooperation and experience exchange.

By the end of May 2005. at the establishing Assembly in Kragujevac, **National Organization of Consumers in Serbia** (NOCS) was formed where 29 local and regional organizations from all over Serbia joined in.

During 2005. **Republic Law on Consumer Protection in Serbia** was finally made, which attempted to include consumer protection standards of EU.

In so called "consumer laws package" beside this one, there are **Law on advertising, law on Prices and Law on Competition Protection**, which were also brought in 2005 [5]. It even more encouraged existing and inspired establishing new organizations along Serbia. Their activity flourished and almost competitive spirit emerged, and area of customer protection, significantly more than earlier, state institutions took part, which was predicted by directions of the stated Law (Ministry of Trade, Tourism and Services, Sector for customer protection and prices, Ministry Council for Customer Protection, Inspection Organs and other subjects of the protection system predicted by Law). In the following period forming first advice giving centres is expected in bigger towns and activating 20 established boards for various sectors in NOPS.

In the second half of 2006. Ministry Councils for Customer Protection, enforced by expert services prepared **National Strategy of Customer Protection** which was formally adopted by Serbian Government in 2007.

Implementation of this extremely important document for development and consistent application of 2005. Law is expected in the following period.

## 5. CONCLUSION

Market economy in a large scale enables consumer sovereignty putting him into a position to place his own preferences by choice of buying certain products and services. This shows in the freedom of choice among competitive products and services. Customer aim is to enable maximum satisfaction of needs by buying specific

products and services. For the market to function ideally it is necessary among other things to inform customers well on available supply and that producers and sellers are aimed at enabling products and services which will satisfy the needs and wishes of consumers completely. Consumers should get a high quality and safe product for their money. In practice, consumers do not have basic information on characteristics and quality of the products or services, so they do not have a possibility of choice during buying.

In our country, the idea of consumer protection was developed during Federal Socialist state. During the 60s, consumer protection questions in former Yugoslavia were dealt with as at world trends but when the country fell apart and sanctions were introduced, crisis that came brought about a regression in this area. All the achievements in the area of consumer protection were forgotten, and our market was flooded by doubtful quality products. Chasing fast profit merchants imported junk from all over the world to our product hungry market. Nevertheless, democratic society development made things change for the better by bringing a set of Laws on consumer protection. Even though, too much time was lost and a lot is needed to achieve what we had, and even more to catch up with the developed countries of the world.

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## MANAGEMENT IN MODERN AMBIENCE

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***Summary:** Management is constantly improving and changing. The ideal management system does not exist. Every system of management and even the best one have to and can be improved. The ambience character and changes have always had the influence on business operations, on managing the economy entities and the behaviour of the managers themselves. In order that the managers would accept the intensive changes in the ambience as the source of business and developmental possibilities, it is necessary that they are able to predict and adapt to them. It is also necessary that the managers have an active relation towards the changes because in the modern conditions of operating, the survival of companies literally depends on the capability of the management to manage the changes. A good management of a company has to endeavour in heading off the halts, the business performances decline and decrease of competitive advantages, i.e. it has to be imbued by efforts of minimizing the risk and the uncertainty in order to decrease the possibility of the crisis state occurrence. When the company has already come into the state of crisis, the company's management should realize it as the strategic challenge.*

**Key words:** management, system, business system.

### 1. INTRODUCTION

In the course of its evolution, the management has passed through different stages of development. Numerous records of the pre-scientific period, as well as the schools and trends of the scientific period point to the variety of approaches on presentations of the management components and characteristics. However, since its origination up to today, the essence of management has remained the same.

The management founder and father, Peter Drucker, regards that its essence is "to make people aware of the concrete responsibilities providing them with common goals, system of values, appropriate organization and chance for development, in order to respond to the changes" [10]. Further, he has introduced the concept of efficacy and affectivity into the management, meaning "doing the right things" and doing them "in the right way" [10].

The interest and desire to conceive and apply the rules, principles and legalities of the management is constantly growing. The growth motives should be sought in the endeavors of people to provide the increase of the standards of living and work.

It is generally known that, in the forthcoming time, the necessary condition for survival is the modern approach demanding innovation and operational capabilities in planning, organizing, coordination and control as the basic activities of the management.

Management is constantly improving. "There exists no perfect management system. Every system of management and even the best one, has to and can be improved" [4]. In one of the articles published in the "Fortune magazine" it is stated: "Forget about your old used up ideas on management. The most successful competition of the future will be something called the learning organization" [8].

Therefore, the condition of survival and functioning in the future is the capability of adjusting to constant changes, i.e. the adaptation to the changeable conditions of the ambience. The management of tomorrow will seek the support in science and modern techniques, in activities of creative and innovative character, capability and systematic approach of each individual.

Considering the pronounced need for innovation, creativity and dynamics, the management is becoming increasingly interesting for the generations of the young, distinguished by the creative energy and wish for mastering the novelties. Moving through the hierarchical scale of classification of managers, the young tendency

is to master the knowledge and skills that will enable them, from the first line, to reach to the very top management (top managers) responsible for overall management of the organization.

## 2. PROPONENTS OF MANAGEMENT ACTIVITIES

The ambience character and changes have always had the influence on business operations, on managing the economy entities and behaviour of the managers themselves. In order that the managers would accept the intensive changes in the ambience as the source of business and developmental possibilities, it is necessary that they are able to predict and adapt to them. It is also necessary that the managers have an active relation towards the changes because in the modern conditions of operating, the survival of companies literally depends on the capability of the management to manage the changes.

The changes' influence is especially pronounced in the area of market, organization and informatics. In order that the company succeeds in realizing its mission under these conditions, the accelerated growth of management is required, as the condition for entering into modern flows.

An often heard expression today is:

### **“MANAGER, THE HERO OF OUR AGE”**

What makes him/her the hero: the role he has, the capabilities he possesses, the style he expresses him/herself or all together.

The first question that is posed is: what does the manager's job essentially consist of? What are his/her functions?

Professor Henry Mintzberg [6] recognizes and further explains ten basic functions of managers, being:

- the interpersonal: the header, leader and creator of relations
- the informational: The information recipient, the information provider and the envoy
- related to decision-making: the entrepreneur, the problem solver, the resource allocator and the negotiator.

The mentioned functions are in accordance with the descriptions given by some other well-known authors

Adiges [1],

Drucker [2].

Apparently the functions of managers are very complex and varied. Additionally, besides the mentioned main functions, the managers perform some secondary, but inevitable tasks as well. Thus, for example, the large companies' managers organize ceremonies and participate in various ceremonies and operating receptions, whereas the small-companies' managers often have to perform the totally simple jobs, for example, to substitute the worker on a sick-leave.

The second question posed is related to the capabilities that are necessary for managers in order to satisfactorily execute their functions.

In what way do managers acquire the capabilities necessary for fulfilling their primary functions is the next question to be posed?

The education is immediately imposed as the logical answer. Besides classical education there is also the cognitive learning by reading, listening and observing. Additionally, there is also the education arising out of the practice under real or stimulative conditions. Therewith, the feedback is of special importance, i.e. the information on accomplished results enabling the quality self-examination and further improvements.

If possessing the appropriate capabilities, the next important question to be answered is whether the managers can really fulfill their functions, i.e. whether they have a real chance (power) to prove themselves.

The standpoint is certainly represented by the legal or formal power, i.e. the legal right and responsibility of the manager to establish the relations in the company, and according to the authorization of its owner. The formal authority provides the manager the status enabling him/her the contact, i.e. execution of interpersonal functions. Based on them, the information functions can be performed and finally, the functions of decision-maker.

In performing their functions the managers practice various styles. Out of the numerous classifications found in companion papers, the division of Stalk [9] is especially interesting on managers who:

- “Play in order to win”, and primarily by destroying the boundaries by fiercely attacking the competition,
- “Play in order to play”, implying respecting the unwritten rules of the market game.

Besides, according to Mintzberg's [5] somewhat more complex standpoint, the basic styles of managers are:

- The committing ones- according to which, based on respect and concern for other people, their inclusion into making decisions on goals and strategy, provides implementation of the decisions with enthusiasm and achieving certain results even when they are not clearly defined in advance;
- The calculating ones- when the managers are focused on precisely established goals, accompanied by the strategies and implementation of decisions they have solely made- with little concern for the needs of the workers.

Finally, we come across to the question: “What does it mean being good, i.e. successful manager, the hero manager?”. One of the ways to determine it is to check the closeness of characteristics of some concrete manager with the qualities of an ideal manager.

### 3. MANAGER OF THE FUTURE

In view of the numerous characteristics, the management team would easily approach to the conceived style of the ideal manager, consisting of the highly-educated, practically and professionally qualified managers. That is why the future is reflected in the management teams.

In time of constant changes and uncertainties, we always have to be prepared for fast actions, seeking for changes, permanent experimenting and extension of views. All of it is easier in a team.

Highly developed companies introduce such teams especially in the area of research and development-innovations.

The capability to innovate is becoming the key factor of changes and success today, and the most important source of innovating is the research and development. It is possible to set three key propositions on the research and development process:

- “- the result of successful research and development is knowledge,

- since the knowledge is the result, the research and development process is the process of learning, i.e. creation of new knowledge,

- the new knowledge should be significant to the society needs and useful for making changes” [10].

Surely, these requirements, by far higher than application of the universal managerial techniques and principles, cannot be responded on by a single person. What is necessitated is not a single almighty genius, but the team having the sense of togetherness, i.e. the complementary team.

In the latest companion papers we come across with the term team leadership. It is said that “The leadership does not imply the need that the business is lead by one leader, but to be based on the network of leaders... the team leadership is more effective in managing business...” [7].

### 4. CRISIS MANAGEMENT

The appearance of a surplus of unfavorable internal and external circumstances creating major or minor sways, conflicts, standstills, sub-optimalties, stresses and similar difficulties and abnormalities in a company's operations, are related to the emergence of the crisis in the business operations.

The concept of crisis, in its original meaning, signifies the reversal, the turnover, the incoming of the decisive moment in the disease development. “However, the predominant determinants of the crisis are: The danger highlight, the endangerment of the company's existence, the critical moment of development of a dangerous state with an ambivalent outcome, suddenness. Crisis is more than conflicts, disturbances, disfunctionalities, but due to the ambivalence of the developing possibilities (to better or worse condition) the crisis does not mean a catastrophe apriori” [10].

The business system crisis can be defined as “the state arising out of irrationalities and unduly adjustment to changes, having as the consequence the disturbance of optimum relations between individual operating functions, and thereby between the results and investment” [4].

Since the survival and development of the company is directly correlated with the management system implementation, it can be concluded that the appearance of crisis is usually the consequence of dormancy, incompetence and lack of motivation of the management that has overlooked or was not able to recognize the symptoms of crisis and to prevent them duly. Due to it, it is necessary to emphasize that the function of management under the conditions of business system's crisis is the following: Timely decryption of the signals warning on the danger, perceiving the crisis causes, volume, and the stadium of crisis and the level of endangerment of the company's existence.

A good management of a company has to endeavour in heading off the halts, the business performances decline and decrease of competitive advantages, i.e. it has to be imbued by efforts of minimizing the risk and the uncertainty in order to decrease the possibility of the crisis state occurrence. When the company has already come into the state of crisis, the company's management should realize it as the strategic challenge.

Management is extremely significant function of the company, especially in the crisis situations. For overcoming and exiting the crisis, apart from the plan for crisis situations, it is necessary to make the manager team that will be able to respond to the challenges of the crisis conditions by their special capabilities, vision, decisiveness and motivation.

In the institutional sense, the crisis management implies the persons that, as the capital representatives or by power of law, lead the company in crisis with the purpose of its rehabilitation. The crisis management as an institution means the proponents of the crisis management.

In functional sense, the crisis management presents managing the company tending towards a goal to take the company out of the crisis and make it fit for survival for long. The crisis management as the management process includes the phases of planning, realization and control” [3].

In the companion papers of this area, numerous strategies for the states of crisis under market conditions of business operations are indicated. The issue of selection of the strategies for overcoming the crisis is unnecessary to be related to development modeling for a long period of time.

"The recovery can have a significant role in overcoming the crisis state, and they appear in the following forms:

1. Struggle- the strategy of progression (investments into innovations, quality, technologies, markets, including the defense strategies as well),
2. Compromise- the strategy of cooperation (market adaptation of companies, the policy of alliance),
3. Delegation- the down strategy (the strategy of partial selective withdrawal, cooperation, innovation, investments and acquisitions),
4. Escape- the strategy of taking (the scheduled retreat from the market, the public sale).

The noted four strategies provide the basis for defining of concrete strategies in real conditions. The range of strategic options is rather wide, starting from the management change, introduction of powerful central financial control, change in the organizational structure and the managing decentralization, re-orienting the products and markets, marketing improvement through growth methods modifications, the assets decrease, the costs reduction, redefining the investment policy and rescheduling the debts. The attractiveness of individual strategic options for recovery of the company will be depending on the crisis cause, the stadium of the disease development as well as on the company's characteristics and branches" [4].

#### **4.1. Response of management to crisis**

In crisis situations, the company's board, owners and management have several possible models of transformation of the organization available as a way out of the crisis. These models are not the local invention, but are used throughout the world. What model will be selected and applied depends on the cause, character and scope of crisis. Thus, the partial or overall models can be applied, meaning the radical strategy of turning point, deep transformational changes. In some situations, it is resorted to those methods of transformation providing fast and short term solutions.

Before making the decision on the application of an appropriate model of coming out of crisis, mostly introduced is the so called crisis management, not presupposing only the change of the existing management or introducing the new one, but establishing such an ambience in the company requiring fast and directed action of all the company's levels. The existing management is often changed due to the function it has had in the untimely identification of appearance and growth of the crisis, the mistakes it has made out of neglect or ignorance. It is difficult to expect that the same management is capable of providing the solution for coming out of the crisis.

The crisis management primarily identifies the situation and diagnoses the state, analyses the production, market and financial characteristics of the company, and only then it undertakes the measures for exiting the crisis or the strategy of turning point.

The most frequently noted models are the company's reorganization or the organizational structure change, "downsizing", i.e. the decrease of the organization's size, different models of revitalization or recovery of the company and very often used is the model of the organization restructuring as a way of complex turnabout and exit from the crisis. Further issues to be discussed and emphasized are two specific models: "downsizing" and restructuring.

## **5. CONCLUSION**

The time we are living in is the time of great changes. Some speak about the space age inking, the informatics age, the era of electronics or about the global village. Humanity is in front of the quantitative leap forward, faced with up to now the deepest social changes and creative re-structuring. The time ahead is writing a new codebook of behaviour for us, it is rooting us out of the standardization, centralization and concentration of energy, money and power.

The manager of the future has to be aware of the fact that the motto of all changes is promoting the quality of life of human and society as a whole. The intensity, significance and depth of changes are possible to consider and through the characteristics a successful manager should possess both in contemporary and in the future times.

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## PRODUCT AND STRATEGY OF CREATION OF BRAND

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**Summary:** *In modern times of market economy, marketing is an important thing of fulfillment of aims with aim to enable profit. Trends in the world demand finding ways for authenticity of products. That politics asks for creation of brand to inauguration of brand. We can say anything for that procedure except that it is harmless. It demands hard work and concise strategic plan on long period of time in order to get quality for beginning, and in the end tradition that sells everything which is under logo, trademark, of that brand. We wanted to show that way of development of product and creation of brand in conditions that we live and work in and culture of business. There is an example which represents a drop in a sea of beginnings, fair-play relationships with competition and market.*

**Key words:** *marketing, product, enterpreteur, research, strategies, promotion, distribution, brand, trademark, quality, market, sale, profit, planning, price, consumer, need, purchase power.*

### 1. INTRODUCTION

Marketing is doing business activities which direct the flow of goods and services from producers to consumers. Marketing is also business concept of economic process regulated by business functions and aims which means their realization too. In the whole marketing can be seen from economic aspect of marketing as business function, business concept as well as scientific discipline. The occurrence of marketing in scope of business activities is a new discipline for business subjects. According to that thinking we come to conclusion that earlier it was planned what to produce and where to sell some product. Now we start from market or buyers seeing total needs, and then look at process of production.

Marketing system talks about connection between business subjects and market. In macro system of marketing are facilities and business subjects which are not connected to activities they do that must be connected in one whole.

Macro-economical system of marketing enrolls all production, auxiliary, service and regulative-control subjects.

Micro-economical system of marketing enrolls product, price, promotion and distribution.

Well made combination of these elements depends on capability and functioning of management of business subject. According to these combinations in all companies, effect of business is of great importance in sense of fulfillment of good bases for successful business of total system of marketing. Having good possibilities for realization of products of good quality, acceptable price, informed market and good distribution, we insured good marketing system [2].

Research of marketing enrolls analysis of problems and occurrences for management of marketing activities of business subject and aims which are achieved by combination of marketing instruments of business subject which enroll product, price, way of promotion and sale. According to that, we research buyers and users of products and their needs, research of product and services of business subjects, research of market and its segments and competition of market and research of communication and their tests through analysis of marketing by media and measurements of those performances. Methods of research of marketing come to intern and extern research of business subjects. Intern research is used for realization and solution of operative marketing problems in business subjects in order to manage activities of business subjects.

In order to insure efficient intern research of marketing, it is necessary to see quality of information and marketing decision in business subject as well as problems which concern quality of product, deadlines of

delivery and sale of products of market, etc. Business subject, entrepreneur, which accepted marketing concept should on basis of his decisions of inner character focus data in better lines of inner efficiency. That makes process of marketing research easier outside of business subject so their dimension goes into surrounding of marketing surrounding of business subject and when results of inner research are not enough for complete view of marketing problems.

Extern marketing research are more complex and demand application of complex methods and procedures, more creativity and time to end in good deadlines. Research of marketing emphasizes research of products and services, that is, acceptance of product by consumers, comparative studies in relation to competitive product in scope of mark of competition of market, determination of current users of products, research of market and market activities [3].

In this part of business plan, a plan of marketing is stated – plan in the plan. The business of company will succeed or fail depending on wheather the company recognizes and satisfies expectances and wishes of the market. It means that nothing is more important than knowing who the buyers are, why they buy from the company or someone else and what we should do to have them more.

In this part of business plan we should have two things in mind:

- Possibility of dissatisfaction of buyers must be minimal
- Marketing wars are never won, they are always lost

It is necessary to know market well, people who buy or will buy products, services or goods.

There are four basic marketing acts:

- Selling old products to old buyers – the least risky
- Selling new products to old buyers
- Selling old products to new buyers
- Selling new product to new buyers – the most risky

## 2. PLANNING MARKETING STRATEGY

Basic task of marketing manager is continuous asking for chances on the market, not only on current market, but also the future, considering the changes in the surrounding. According to the marks of chances on market, marketing managers plan strategy [1]. Marketing strategy is basically group of decisions of the company of what it should do on certain market. Three basic tasks of marketing manager in the process of planning are:

**A. Research of market possibilities**, is the first taks in aim of informational support to strategic decisions. Marketing managers should find everything that is important about the market where they will act. Important information which should be provided:

- Surrounding where company will act,
- Consumers on the market (needs, behaviour, purchase power and other characteristics)
- Competition on that market (type, number, characteristics, strategy etc.).

**B. Choice of target market**, which means:

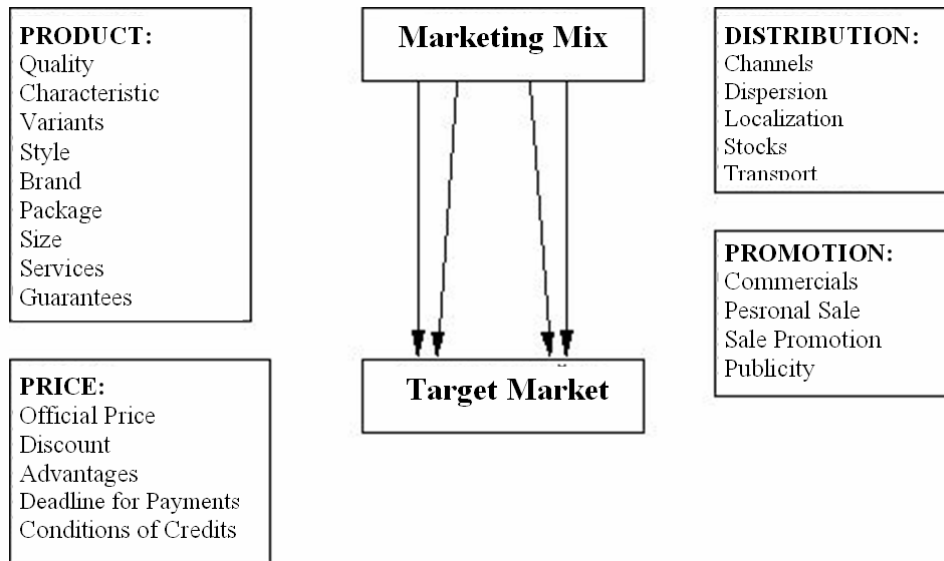
- Segmenting market is marketing approach which has as aim for company to adjust in a better way to needs and wishes of certain groups of consumers. Every group of consumers that has the same characteristics is called market segment.
- Choice of target groups of consumers depends on the attractiveness of some market segments, possibilities and competition.
- Analysis of competition for positioning on chosen target market.

**C. Creation of marketing mix** comprises choice of 4 basic variables, elements of marketing, that is, choice of proper combination of these elements:

- Product**
- Price**
- Distribution**
- Promotion.**

**Product** must have all characteristics that targeted group of consumers demands. **Price** must be according to characteristics of products. Channels of **distribution** is a way that product goes from producers to consumers. Consumers must be informed about all advantages that product has in satisfaction of their needs and wishes, which is done by proper coordination of **promotion** with other three elements in marketing.

**Impementation of marketing strategy** is the next step after plan of marketing is made, and it is application of planned through operative decisions.



### 3. ANALYSIS OF THE MARKET

Unless company has money to start new business or spread the existing, there is a need to turn to financial institutions or other subjects which are ready to invest means under certain conditions.

Investment project or business plan, is not just formality, but basic form of every entrepreneur activity, because only by detailed and careful planning and analysing of all segments of future investments, one can see if it is justified and realistic to realize the idea.

Analysis of market and plan of marketing are one of the most important parts of business plan, because of accurate analysis of market and quality marketing the success of business idea depends. Analysis of market is one of the most important analysis in business plan, or investment project. Results of analysis of market are basis to mark possibility of success of project on the market. If results of analysis of market show success of project, then one should continue work on preparation of the project. If analysis of market shows that project can not succeed then it is less damaging to give up than to proceed in wrong direction.

Analysis of the market has to comprise minimally:

- market of supply,
- market of sale,
- content of analysis of market, that is, estimation of fulfillment of profit.

Concrete content of analysis of the market depends on the intended activity, and scope of analysis of the market is conditioned by specific characteristic of every activity, as size of investment. The simpler analysis of the market or for investments of smaller scope, investor will be able do alone, but for higher or analysis of market in long-term it is recommended to hire expert or specialized agencies. Hiring experts will cost more at the beginning but you will get much more in return. You will not have missed investments.

Analysis of the market is see through the following wholes;

- 1.1. Evaluation of offer and competition
- 1.2. Market of sale of providing of services
- 1.3. Marketing

If we approach analysis of market without help by experts, we should collect some data. Scope of data is conditioned by intended investment, but for most of investments it is necessary to:

- analyze intern surrounding (business, prices and quality of our own products and services),
- analyze quality of products and services and prices of competition,
- collecting data about competition,
- collecting data about prices of raw material, materials and energents necessary for new product,
- making contacts with buyers and producers and suppliers
- doing questioners etc.

Basic thing for success is seeing potential buyer, and then adjustment to his wishes and needs. Basic principle for getting on the market is:

- cheaper product
- better product

- different product
- faster service.

That is why analysis of the market must prove that future product is cheaper, better and different and promote it in the right way with sale on right places. In order to have results of analysis of the market true, it is necessary to show comparative data of competition and our own data, so that the creditor to whom Investment program is given could see the accuracy of the analysis of the market.

Statements like 'I think', 'I am sure', 'It is expected', without arguments in concrete data and facts, are not acceptable.

Most companies produce products or services that already exist. If products of the companies for which the business plan is done for are unique, latest word of technics, or in some way different from competition, it should be used as fast as possible. This differentiation is valuable but does not last long because it attracts copy cats.

It is necessary to answer some more question, which should help to determine our position according to the competition and see where special characteristics are and advantages.

1. What is sold?
2. What are the benefits from what is sold?
3. Why are products and/or services different than competition? Buyers buy benefits. Characteristics make those benefits possible.
4. If the product is new, latest word of technics or in any other way unique, what makes it different than others and desirable for buying? Getting market used to new product is full of danger and unexpectedly high expenses.
5. If product/services are not special in any way, why does the company think that people will buy it? Is it because of location of the company, great choice, good knowledge of the way of usage of product which is sold? Business success is reached by satisfaction of needs and wishes of the market. Only in small number of cases the business success is the result of top product or high technology. Most companies of the same activities – specially if we talk about wholesale, retail or services – are alike.

Company must not easily rely in 'top' product or service. It is necessary to focus on satisfaction of needs of the market. The first step to that aim is that company knows everything about its products and services. What are their characteristics, what benefits can buyer have from them, and how can company use its knowledge about the product or service in order to differentiate itself from competition?

#### **4. EVALUATION OF OFFER AND COMPETITION**

The aim of this part of business plan is that company finds an answer to take good steps from its competition, and avoid their mistakes. It is a common mistake to start a business on the market which is full of similar offers. Careful analysis of the competition can lead a company to the state where it must change its basic concept or some of the existing business activities in order to become competitive. That must be every day practice, because markets change constantly, and success attracts competition [1].

The company can not fight competition on all fields. They should find the area in which the company has advantage (people, products and services are three main advantages). Their advantages should be set opposite the weak sides of the competition. The condition is, of course, that both sides know each other very well.

In order to follow and control the changes in surrounding, it is necessary to do research and analysis. Research of offer and competition is a process of gathering of information about dynamics and intensity of changes, as well as process of evaluation and interpretation of information received by research of existing offers on the market and competition.

Analysis gives value of information, considering accuracy of knowledge. By analysis and evaluation actual changes are described. The purpose of analysis of changes is identification and evaluation of chances, that is, danger connected to certain changes.

In relation to events in surrounding, two approaches can be applied:

- accept changes that can not be controlled or influenced, or
- try changes to use in personal benefit, using certain activities.

Wrong estimation of offer and competition leads to failure of investment.

#### **5. MARKET OF SALE OR PROVIDING SERVICES**

According to estimation of offer and competition, which is filled by results of research of needs of users of services, one should define plan of market of sale of products or providing of services.

Plan of sale, or providing of services must be realistic, so one should take care about the possibilities of one's capacities and incomes that it will have. It is necessary to determine if it will be on domestic market or abroad.

Knowledge about the needs of consumers as well as research and analysis of the market is very important for the success of the project.

The needs go under different changes which represents consequence of social and technical progress. On creation, maintenance and development of the needs influences great number of factors which mean motivation, attitudes and limiting variables. Every business subject must adopt to needs of consumers through creation of production of such products that will in the best way satisfy needs of consumers, and on the other hand enable business subject to realize its aims and make profit.

It is important to take care about the needs of consumers for certain products or services for personal identification about the image of the product. According to that, marketing is there to enable and urge motivation of the consumers for certain products, that is, to present and advertise product in the better way and present quality of business subject.

The time of mass production mass media and mass marketing gave way to production for buyer, individually determined media and internet marketing. Internet marketing strategies are set on the wish to satisfy instant needs of potential buyers.

Segmentation of the market makes it possible to determine target market and satisfy needs of the market in the right way. Segmentation of the market is a procedure of market share in different groups of buyers (users) that could demand special products or services. It is necessary to choose that segment of the market where we could have wanted success on target market.

## 6. METHOD OF DIFFERENTIATION OF THE PRODUCT

Differentiation of the product is a common occurrence in modern market and it is a result of analysis of internal and external character in order to improve quality of existing product as well as sale of new product. These changes are accomplished by different choice such as:

**Differentiation of dimensions of the product** depends on the structure of the market that determines if that product is homogenous and in which measure. For a product we can say that is with a package, mix of price, promotion and distribution on the market.

**Differentiation of the essence of the product** starts from the needs of the consumers, their way of view, expectations and reaction on changes. The change of essence of the product is a result of different things in production and technological process with the aim to get product of better quality, better and more modern one. This differentiation improves functional characteristics of product to get the market.

**Differentiation of formal product** is a cover on the physical look of the product and it modifies product in a way that consumer sees.

**Differentiation of product by quality** is next to price main factor in choice. Quality as a scope of characteristics which are important for the mark of usability of the product is important factor for differentiation of the product.

**Differentiation of product by package** is more and more important. Well packaged product gives good picture in promotion of the product.

**Differentiation of the style of the product** is improving its looks. Style creates first direct impression and that should be taken in consideration because demode products are obstacle for purchase.

**Differentiation of the brand of product** is an instrument of policy of product by which strategy of differentiation of the product on the market is done. Famous name or brand has a special place on the market.

**Differentiation of the design of product** is the change of its looks and great help in sale. It means, simplicity in handling, adjusting to usage and satisfaction in line, characteristics etc.

**Policy of differentiation of prices** depends on the position of the product on the market. So products that have monopoly or small competition, can be free when creating price while others have to watch movements on the market when determining the price.

## 7. PHASES IN THE DEVELOPMENT OF THE PRODUCT

1. *Phase of introduction* is the beginning of sale of the product. The hardest and most risky phase before we must do research. If product goes through this phase successfully, the sale starts to grow on high rate. Characteristics of this phase: intensive promotion and usually losses on the product.

2. *Phase of growth* is a period when sales grow on high rate and when the biggest profit per unit of product is made. Characteristics: continued promotion, decrease of price of the product, growth of profit. At the end of this phase in offer usually the competition enters and product goes in another phase.

3. *Phase of maturing* is when prices decrease although the demand grows. Entering of competition decreases profit per unit of product but does not influence profitability because the demand still grows.

4. *Phase of stagnation* is when the sale reaches saturation level. The demand is on the highest level. Profit per unit of product is still dropping. The entrance in this phase means the need for introduction of new product or modification of the old.

5. *Phase of dropping out* is when the need for this product is satisfied or gone, or there is exchange for the product. There are no decrease of prices, or promotion that will stop decrease of sale and profit.

## 8. INTRODUCTION OF NEW PRODUCT

New product is a product which producer in current activity did not have in productional program. Modification is a change of existing or additional characteristics to new products. New product can be (from the aspect of innovation of the product):

- a) completely new for producers and market (completely new product –by research or purchase of patent);
- b) new only for producers (product known on the market and there is a demand);
- c) new only for certain consumers (product present in productional program, with modifications transfered on new areas of usage);
- d) modification of existing products as aim of spreading of existing or entering new markets (as aim or prolongation of product).

Individual producer can introduce new products by: personal growth, integration, cooperation and joint investment [2].

## 9. EXAMPLE OF SALE OF NEW BRAND ON THE MARKET

Brewery in Sarajevo [5] started new facility for production of natural fruit juices, Juice plus, capacity of 8.000 bottles and invested two million KM.

### **Production of natural fruit juices**

Sarajevo brewery started new facility for production of natural fruit juices. In this way this company opened 25 new working places.

Juices are intended for restaurants, cafes and households, and they are produced in five tastes: apple, orange, red multi-vitamin, strawberry and cocktail (cherry, peach, apple).

In Sarajevo brewery they plan to open facility to pack juices in cartons too.

With Juice plus, the company increased the number of products in which there are sixty of recognizable brands. Getting Juice plus on the market will be supported by strong marketing campaign, and will be under the slogan Get back to nature.

New product is a result of a logical flow of business, sale and productional policy. Sarajevo brewery in that way go in market game with leaders Fruktal and Vegafruit, and others, specially those that make refreshing juices of suspicious quality in garages and basements.

Promoting new natural fruit Juice plus, representatives of Sarajevo brewery said that it is the word plus relates to the quality of the water, long-term experience of their engineers and modern equipment.

Juices are 100% natural with no conservatives and sugars, and system of pasteurization was used.

Bottle is of characteristic form (glass in green colour), with wide throat and protective paper against the misusage of the cork.

On technological line, the method of warm fulling is applied with high temperatures during sterilization of the bottle, cork and all parts that come in contact with the juice itself.

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## LEGAL ASPECT OF INTERNATIONAL TREATIES IN THE PROCESS OF GLOBALIZATION

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***Summary:** Globalization and liberalization of economic life have lead to radical changes in the structure of diplomacy priority of every country, demanding new forms and manners of arrangement and consultations to reach an agreement in the international framework. Put forth in the foreground are economical instead of political priorities. Powerful diplomatic economic engagement has become an essential characteristic of many countries' diplomacy, and the main preoccupation is how and in what way to provide as favourable as possible position for exporting industry and own companies on the world's markets in order to realize as positive as possible effects in economic cooperation with abroad, which are, sooner or later, materialized in the corresponding foreign exchange earnings. In the segment, the international treaties play a highly significant role as one of more important instruments, by means of which forms of cooperation and business relations with foreign countries are established. Having in mind the powerful influence, complexity and multilateralness of globalization as a process, besides the existing to the arisen and evolving new international actors at the global scene, this paper analyses the role and significance of international treaties resulting as a consequence of creation and forming of these global processes.*

**Key words:** international treaties, globalization, economic diplomacy, international law.

### 1. INTRODUCTION

Fast and powerful integration of national economies into the world economy through trade, finance, technology, information networks and transcultural cooperation has encouraged the prosperity of the world as a whole. In the international political and economic relations, the role of states and diplomacies as the instruments of promoting and protecting the interests of the countries, remains highly significant and especially the role in the field of economic relations. Today, development of various forms of economic cooperation with other countries and the world, internationalizing of the own economy and business operations of own companies, have become in the full and legal sense the strategic national interests of every country. However, the globalization's benefits are allocated neither automatically nor evenly from country to country. The facts direct to the growing polarization both between developed and undeveloped countries and also within these groups. To some social groups globalization brings above averaged benefits, to some partial and some are suffering.

The most developed countries reposing their power on the economical superiority, military supremacy and predominance in the production domain, increasingly transfer their foreign policy priorities and bind them to the economical sphere, tending to realize their interests, among other, by the powerful diplomatic economic engagement as well. The undeveloped countries found at the end of the global scale are facing numerous problems: Insufficient human resources, political instability, poor raw material basis, civil wars, high foreign debt, macroeconomic instability, etc.

Inclusion of developing countries and the countries in transition into traditional international institutions (STO) and various economic integrations and commercial blocks (EU, NAFTA, ASEAN, ECOWAS, etc.), requires a new model of accesses and diplomatic activity for the purpose of better protection of their economic and political interests in the process of modern economic relations' globalization.

Accordingly, the modern system of international economic relations and processes of globalization and integration impose the need for intensive economic diplomatic activity, directed towards realization and protection of economic priorities and interests, in which developing and transition countries can take an example from the most developed countries and therewith govern the foreign policy and foreign economic activities.

## 2. INTERNATIONAL TREATY CONCEPT AND SIGNIFICANCE

The international treaty is concordance of wills of two or more entities of international laws for the purpose of creating mutual rights and obligations in order to generate certain legal effect. The international treaties can be concluded exclusively by states and international organizations. The term treaty is used in the broadest sense and covers all types of agreements concluded between the international law entities. In the international transportation, besides the traditional name, other names are common as well, such as, for example, charter, pact, constitution, statute, convention, protocol, act, concordat, compromise, *modus vivendi*, memorandum on understanding, declaration, etc [14]. The international treaties appear as the most important legal acts by which cooperation among states is realized and by entering into it the states mutually limit their sovereignty. Today almost every state is a part of international order in some way, consisting of the corpuses of international documents and interstate agreements. Let us say that many countries and our as well, in many important aspects of the legal system, prefer the international law related to the internal legislation and thus reduce their sovereignty referred in the classical sense. Additionally, membership in the international military organization such as NATO, undermines sovereignty referred as monopoly to the application of force outside a state's borders, and the individual members of the UN charter and other international acts with regards to human rights protection can be interpreted as allowing the other states' interference into internal affairs of a sovereign state without its consent if in it human rights have been drastically and to a large extent breached, and in that way they question also the monopoly on the use of force within the sovereign state itself.

Since states are source entities of international law, thus the contractual capability is beyond any doubt. However, there are certain modalities in the structure and international status of particular states such as the semi-sovereign states, the states with complex legal order, the states the contractual capability is limited (neutral states). The contractual capability is acknowledged to semi-sovereign states, because placing under supervision or control by the other state does not represent losing the attribute of legal party in the international law. At federal states, federation represents a unique subject of international law and they possess full contractual capability. The contractual capability can be limited based on the international status such as the case is with the neutral states. Besides states, in the by virtue of entities also appear the international public organizations and their specialized agencies.

By taking on the international obligations, the contractual parties are obligated to undertake certain actions in order to provide the performance of the contractual obligations the way they are worded. In simple or unitary states where, naturally, there is only one legislation and one government, the matter is simple because the government entering into the international treaty is authorized to render the regulation on the treaty application taking care on the constitutional limitations. The situation is more complex when it is about the states with complex legal order, i.e. federal states. In the comparative law concerning this issue there are several solutions. For example, a federal state is entrusted to conclude the international treaties and to take care of their performance. According to the second solution, federal state is entrusted to assume the international obligations, with the reserve that the federal units give their consent before the international treaty ratification. Finally, according to the third system in the act on ratification, an act is added introducing the international treaty into the life.

In the internal legal order, the obligation of conscious and precise fulfillment of the obligations taken over from the treaty is based on the law, whereas the obligations in the international law are based on the customary rule *pact sunt servanda* [9]. This rule presents a positive norm of the international law the function of which is respecting and execution of the contractual obligations in good faith. In the international order there is not such a perfect system of sanctions as in the internal law of every state. By formation of the international organizations the system of enforcing sanctions is improved to a large extent. Otherwise, with regards to the breach of an agreement of the international organization, moral sanctions can be applied consisting of the public disapproval of the state by means of resolution. The forms in which the control mechanism is exerted depend on the obligations of the states taken over by the international treaty.

When speaking about settling the disputes, it should be taken into account that the disputes can be of the international public law character and international private law character [9]. The disputes can be settled by diplomatic means, such as, for example, diplomatic negotiations, good services and intermediation, official inquiry commissions, reconciliation and the procedure before the UN or when the disputes among states is settled by the International Court of Justice and arbitration. The International Court of Justice is the main judicial body of the OUN. By virtue of litigious party three groups can appear: State members of the UN; states not members of the UN but the members of the International Court of Justice's Statute; states not members of neither of the mentioned. The court does not have the mandatory jurisdiction, so that the disputes can be confided to other courts as well when it is predicted by the agreements among states.

The arbitration is an obligatory procedure whereby an independent person or body is appointed to "arbitrate" the decision enforceable in the dispute between the contractual parties which have agreed the arbitration as a means of settlement of eventual disputes during arranging of primary business or in case of the dispute arising. The



arbitration can be institutionalized and ad hoc arbitrations. Concerning the institutional arbitration there is the Permanent Arbitration court with the head office in the Hague, competent for any arbitration disputes, except if the states do not decide to submit the case of dispute for ad hoc arbitration. The conditions of acceptance and execution of the foreign arbitration decisions are regulated by two international organizations- the Geneva and New York Convention.

### 3. MANAGING INTERNATIONAL AGREEMENTS IN THE PROCESS OF TRANSITION

Transition [2] represents economical and social state in which the relation towards the economic system's institutions is radically changed. The institutions of centralistic-planned economizing are abandoned and market-economy institutions are introduced. Transition includes mutually conditioned reforms in all segments of a society, and in the economy they are related and conditioned with democratization which, together with the political and social consensus on the necessity, route and dynamics of the reforms represents a prerequisite of successful transition.

Former socialist countries' economies, to the extent in which they are more and more being transformed on the market foundations, become more and more and indivisible segment of the global economy. Accordingly, the countries undergoing transition dedicate their great attention especially to economic issues and therewith are trying to establish as better as possible relations with the surrounding countries and especially with the countries belonging to developed economies. In the segment, the international treaties play a highly significant role as one of more important instruments, by means of which forms of cooperation and business relations with foreign countries are established in different spheres- from economy to politics and other matters. The international treaties by their activity in any segment bring to various bilateral and multilateral connections between states, states and different organizations of economic or other character. The action leads to a large number of regional economic integrations, as well as to origination of the international governmental and non-governmental organizations.

The international treaties and agreements characteristics in the transition process will best be viewed at the countries on the Balkan, where is clearly seen how important their role is in as fast as possible economic growth and development, as well as in cooperation and integration of the countries in transition with developed countries. During the last fifteen and so years, we witness significant changes in the approach of the European Union towards the Balkan countries and vice-versa. The politics of stabilization and affiliation has been created in order to create a strategic frame for the Balkan countries for their relations with the EU and thus help them to transform their aspirations into reality, in that way combining new contractual relations. The agreements on stabilization and affiliation are legally binding international agreements in the essence of which are the main principles the UN membership is founded on. Apart from respecting democratic principles, human rights and rule of law, they predict the establishment of the free trade zone with the European Union as well, which will enable the economies in the region to start the integration with it. In order to achieve it, one of the goals of the stabilization and affiliation process was equipping the Balkan countries with the means of maintaining stable democratic institutions with the purpose of ensuring the rule of law and maintain the open, successful economy. The stabilization and affiliation process is both bilateral and multilateral because it creates powerful bonds between every country and the European Union, encouraging the regional cooperation among the countries as well as their cooperation with the neighboring countries in the region.

Therefore, basic elements of the stabilization and affiliation process are [13]:

- contractual relations,
- commercial relations,
- financial power.

These elements enable the Balkan countries to find the way based on the practice and experience of the European Union of arranging their legislature and administration in order to make the flow of goods, services and capital more easy through and beyond their borders, within the region and with the EU and with the purpose of encouraging the sustainable development. The treaty on stabilization and affiliation is also asking from every country in the region to enter into bilateral agreement on regional cooperation with other states with the intention of supporting the establishment of relations among partners in this process.

The economic bilateral implies the complex of economic relations established between two states based on the appropriate forms of mutual cooperation of economic actors of those states and according to their interests. These economic relations and forms of cooperation are defined by businesses of international business and international trade law. Herein also encountered are different forms of economic cooperation between two states, such as:

- 1) **External transactions**, including: Import, export, inter-firm trade, tie-in sale, finishing and processing works, leasing, sharing, franchising, invoicing, forfeiting, re-export and other.

- 2) **Higher forms of economic cooperation**, including: Joint investments, granting concessions, technology transfer, long term production cooperation, scientifically-technical cooperation, execution of investment operations abroad, making the feasibility study, managing investments projects, incentive and mutual protection of investments and other.
- 3) **Financial-banking operations and system of payment operations with foreign countries**, including: Credit operations, exchange transactions, foreign indebtedness regulating, international payments and other.
- 4) **International trade arbitration operations**, including: International commercial transactions, ad hoc and institutional arbitration and other.
- 5) **Economic cooperation with diaspora, etc.**

These operations are highly important for countries in transition, which, through the operations, try to overcome more easily and more simply the wearying process such as transition and also to connect and approach as much as possible with the surrounding countries and broader.

#### 4. INTERNATIONAL TREATIES IN THE PROCESS OF GLOBALIZATION AND REGIONALIZATION

The international treaties follow by rate the processes of globalization and regionalization as two mutually connected and intertwined processes. The regionalization represents interrelationship of two or more countries into appropriate forms of regional integration. The regional economic integrations present the result of various inter-state negotiations, contracts and agreements, the final purpose of which is accomplishing the universal economic competitiveness as such they are one of the main supports of economic diplomacy. Basic forms of regional economic integrations, stemming out of various international agreements and arrangements are [1]:

- preferential trade agreement
- free trade zone
- customs union
- joint market
- unique market.

The unique market represents the most developed form of economic regional integration. In it, the means of payment is only one currency, the unique regulation of banks' and other institutions' functioning (the typical example is the EU).

The processes the intensity of which is ascendant within the last two decades are: Flow of short term foreign investments based on the speculative exchange rate, long term direct foreign investments, trading on the global level with the policy of decreasing barriers that would impede it, the rising share of transnational corporations in global production and trade, the global interdependence of the production, circulation of people motivated by trade or looking for jobs and development of new forms of communications, have lead to the development and increasing influences on the global scene of multinational corporations dominating the global production. The most influential among them are: The World Trade Organization as the first multilateral organization having the power to subordinate the will of national governments to its rules, the Permanent international general sessions arising, the regional blocks such as the European Union, ASEAN, NAFTA and groups for political coordination at global level (G7, G8, G10, G22, G77, OECD). These processes have also lead to development of the global civil society and their actors, such as the international non-governmental organizations dealing with promotion and protection of human rights both on the international level and on the UN level, and both on the national and local level, effecting the spreading of the culture of respecting human rights, their integration into domestic legislation and development of international, regional and national mechanisms for their protection. These actors create new rules in the international relations, economy, trade and international law. The number of conventions and documents regulating these areas is increasing. New multilateral agreements originate: On trade, intellectual property, communications, etc. and on the international level global goals (Millennium goals of the UN) and regional goals of development are agreed on. Strengthening the awareness on common destiny of all people and their relation with the planet's destiny brings to increase of the number of international treaties on environmental protection at global level (preservation of the ozone layer, preservation of sea and oceans, desertification, climate changes).

New stage of globalization, based on new financial markets and growing global service markets has been enabled by abrupt development of new forms of communication and development of faster and cheaper railway, road and air traffic. removal of the barriers in the trade, economy and transportation has also lead to the by-products of this development- global connection of socially undesirable and adverse activities, such as the international crime, international terrorism, trading women and children, trade of guns and drugs, all of it leading to increase of the significance of the internationally accorded action of states, the increased number of international treaties and conventions in this field and therewith to development of international law.

## 5. CONCLUSION

We can conclude that globalization is a complex, social, economical, culturological, technological, political and geopolitical process wherein the mobility of capital, technology, organization of ideas and people has obtained the growing global and transnational form. National economies are more and more integrated into four fundamental areas- trade, finance, production and the growing network of agreements and institutions. The growing network of agreements and treaties connects the states into a community with multilateral obligations (such as the group G77, made of 132 member countries), regional obligations (the European Union and other commercial blocks) and bilateral obligations (for example, two-national tax agreements between the USA and a dozen of other governments).

When discussing on the transition economies, one of the key elements of their transition is their reintegration into the global economy through trade, financial flows and other elements. Inclusion of the economies of the countries in transition into the flows of global changes represents a complex task. For the countries in transition, the only way to avoid the isolation and permanent lagging in the development is the active relation towards these changes for the purpose of maximizing the possible positive performances and minimizing the possible negative effects of globalization. The transition countries can have and see their chance in variety of economic and other integrations with the neighboring countries as well as with developed countries of the world and therewith direct themselves in determining of their own foreign policies and foreign economic priorities.

If we start from the basic idea that by removing the barriers in trade, by investment into technology and advancement of communication the conflicts between people will be decreased and thus contribute to common peace and progress, we come to the idea of creating new type of globalization that is called "the sustainable one", and which contributes to development of business operations and free markets and productively influences on both developed and developing countries. "The "sustainable" globalization points out the significance of social context- free societies are capable of accomplishing the faster and more efficient growth of living standard, economy and free determinations of an individual: free spirit, free market and free entrepreneurship.

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## NECESSITY OF INTRODUCTION OF NEW CONCEPTS IN MANAGEMENT AND ORGANIZATION

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**Summary:** *It is generally known that modern world is in the process of permanent transformation, which develops into a level of higher organization and success. Humans have managed to enable bigger success in each time dimension, which directly influenced improving life standard, life expectation prolongation, so people in highly developed countries live around 80 years. On the other side live expectancy of organizational systems is permanently shortened. Reasons for above stated are in introduction new technology and organizational solutions, changes in the surroundings and especially market changes. Bearing in mind above stated, the questions asked to manage in changed circumstances, getting more dramatic. It is certain that obsolete concepts can not solve modern problems, and especially future problems, and it is necessary to pinpoint the need of introducing new knowledge, skills and techniques in modern management. This work deals with some of the concepts which can be useful for managing in modern corporative organizations.*

**Key words:** *new concepts, reengineering, social responsibility, holistic concept.*

### 1. INTRODUCTION

The fact is that each time has its own problems. At the same time, each society and each individual considers that his problems are the biggest. In other words, the totality life of a man and an organization is followed by problems, and success is to solve them and make them "fine problems", this often defined success of some social economic formations, and success at global and national level. Successful problem solving and creating conditions for improvement and development is best achieved through organization as an artificial creation, designed by people as natural element and material, informational and financial resources. So, it can be claimed that everything that exists in cosmos and the Earth is a result of organizing whether by nature or men as part of it. What makes organization different through certain phases of human development are the ways it was done and the way an extremely complicated process was managed. So, each phase had certain organization forms, as people even in early periods of their development, found out that it is possible to enable survival through organization and togetherness, life and work.

Above law will apply in future, as life is a natural law which is best supplied through synergetic activity of people. In modern conditions a need to apply new concepts is shown in enabling successful organization systems, those concepts which meet new problems and challenges in front of which modern civilization stands, or organizations of corporative type.

### 2. NEW CONCEPTS AS ANSWERS TO MODERN CHALLENGES

All the researches so far show that no universal concepts and technologies for improving organization system success exist. Each organization will in accordance with its knowledge, skills and capabilities apply the concept considered to be of the highest quality. But it is obvious that classic ways of organization and management can not solve modern problems. Taylor Faioly concepts which in the past decades gave relatively satisfactory results can not be used now. They were based on determinism, schematism, stability and a long life of an organization, by putting material resources in front, etc. In accordance with the previous, theory concepts for finding the best

organizational forms were given, and management was supposed to study and apply them to a specific organization.

Regardless the difference of approach to new concepts in question, and their success, the following text will deal with four concepts which can be of use in giving answers to new challenges forcing themselves to corporative organizations, and those are: (1) necessity to introduce reengineering in organizing and management profession, (2) necessity to introduce a system concept in organizing and managing, (3) introducing concept of corporative social responsibility in organizational systems and (4) change in comprehension of place and role of people organizations. These concepts are often interconnected, which means they influence one another, by which a net of interactions is formed, and this should be known to be able to react upon it.

## **2.1. Necessity of organization and management profession reengineering**

Even though management profession in developed countries has intensively been talked about for the last five decades, there is an impropriation between declarative and real condition in question. Nowadays, Management Universities in all market developed countries are more estimated than all the other professional orientations. They are at the same time the most expensive as they make professional, expert and science personnel for managing business and other organizations. Logic and excuse for such a status of business and manager schools is in the fact that management has a decisive influence on corporative success or failure. In the following context stakeholders try to enable capable managing structure, which will make satisfying profit and company's growth and development.

In a larger part of literature superprofesionalization is talked about, and also about a number of institutions as agencies, enterprises, consultants, agents, etc. who have a function of managing corporative organizations. Considering the fact that management has a decisive influence upon corporative success, it is logically concluded that it is also responsible for failure, or for bringing about the last world's economic crisis. General hypothesis could be that management, and before all strategic management of developed countries is responsible for present economic, social and moral crisis, which changed value system considerably. According to this, it is necessary to redesign this profession, before all when philosophy on which management process is based is in question. It obviously doesn't meet the conditions of crisis and extraordinary circumstances, and which still functions in a classical way, and so in closer and broader surrounding nothing changed.

Reengineering [5] of management profession must start from educational system, from institutions making and creation future management professionals. Modern education of management with slight modifications has existed for more than a century. It has created and still does create professional managers for managing in normal times. But in conditions of fundamental or revolutionary changes which are happening today and will be even more dramatic and uncertainty it is necessary to create before all management made capable to manage in times of crisis and situations of less than normal and stable conditions of business. Logic of this approach is in the fact that normal situations will decrease, and if at all existent, they will be eliminated and not regarded at all when making strategic managing decisions. So, basis of strategic managing decisions will be represented by variables, uncertainty and judgment of future situations, while constants will be disregarded as they do not make variables which influence system functioning.

Management process, planning, organizing, leading and control as well as functioning of corporative area were also adjusted to incremental surroundings. Tools, techniques and technologies used by managers assumed their using in conditions of "quiet waters" in which the base was the ability of planning the movement of a ship and activities to be taken in crisis situations, and destination to reach. In such circumstances, we more or less, do not ask about the problem of directing the "ship", as all the parameters from the start to the end were known, with little if at all uncertainties which could be predicted and prepared for. Similar is the situation with organizing, leading and especially control, as elements of management process. It was assumed that gigantism (a big ship analogy) and centralism, with clearly divided roles and responsibilities on the ship, the condition for success, because of which deep hierarchy systems were created with clear areas of authority and responsibility.

In turbulent conditions existing today and which will be even more dramatic in future nothing is similar to the past. Speed has changed, and existing market became a war sight where several thousand companies collapse every day. There are "big ships" and "quiet waters" no more, but "speed" requiring new concepts, and management technologies. In this sense, classical way of planning has to be changed with flexible way of planning, and making plans for daily battles for customers, or clients, where more quality products will be produced, at the lowest production and selling price. It is similar with organization which must be based on decentralization, leading that should function on principles of attracting people for management ideas and control, which must not be a purpose for itself, but in function of achieving set aims with satisfying profit.

In accordance to this, tools and technologies of management must be changed. "Big ships" go to museums and their place is taken by rafts and rafts men who should be trained for all the activities from steering through speedy waters and rowing. Classical division between stirrers and rowers is thus eliminated, and all should be

professionals enough to answer the problems and uncertainties appearing, or may appear in moving from start to corporative aim.

So, crisis times and turbulences which will more and more become a rule require eliminating of management trained to react in increment or peaceful environment, and introducing management which should manage a company in crisis. This constatation is logical, as it is an illusion to think that management educated to lead companies during stable conditions of business may be successful in crisis and uncertain conditions of business. Confirmation for the above stated we can find in managing military formations. Generals who were successful during peace were mostly incompetent to command during war. Namely, during war some other features of a leader are needed different from characteristics needed in peaceful times. Here, practical solutions, improvisations, speed in making decisions and judgments (of enemy, time, terrain and forces) is more appreciated, while in peaceful times analytical and patient personality, technology and science are more valued, etc.

## **2.2. Holistic system concept new quality in organizing and management**

Practice and management analyses show that many occurrences and processes and conditions of a system are watched and researched individually and unconnectedly. It is often forgotten that everything that happens in nature and society has rules and laws. This fact was pinpointed by old Chinese wise men in the book "Ji djing" (the Book of Changes) where relationships between sex differences of jin and Jung were shown in interdependence and balanced function which provides keeping on unchanged model of organized structure which has characteristics of the totality. To above stated we should add what Aristotle's claimed, cosmos is a totality which is something more than a simple sum of its parts, which means that quality of a totality can not be seen in quality of its parts. What exists in a quality of the totality and does not exist in the quality of its parts Aristotle's called the spirit or the soul of the totality. The spirit or power of the totality is in its mind, which has not been defined by science yet. So, thus are the spirit of the totality and the mind of life are connected as two primary most important secrets of natural order [9, pp. 2].

Application of holistic system concept in modern complex organizations is necessary, as in that way interrelationships are discovered which exist in organization systems, as a condition for their restructuring into new more organizational systems of higher quality. A part analysis has so far been conducted without the analyses of connections among parts, which eliminated synergetic potential analyses as a base for each unique functioning. Holistic system concept enables harmonization on of parts inside the totality and creates conditions for system thinking development, which means that each subject in the totality thinks about the totality, using the principle "a part is important, but a totality is more important".

Other aspect of holistic system concept application is in researching relationships existing between parts and totality in a system. It is shown that organizational totality is always represented by an organ called managing board, general manager or some other title. All the parts or subsystems of an organization must take care of success of its parts, but as it was previously stated, more important is the success of the totality. That is why a general manager may make decisions to lessen the success of a part, or several parts but it is reasonable if those economic sacrifices contribute to the success of the totality. This represents a natural law of survival, or life.

Apart from the stated, holistic system concept analyses relationships of corporative type organizations to the surroundings, where it functions. These relationships are important, especially in analyzing dynamics of changes which happen, to be able to manage balance change in the organization with changes in the surroundings. As it shows, no organization is sufficient to itself, nor it is an aim to itself, but everything is a totality of parts and at the same time parts of the totality. So, in business you do not have to be quick, but you must be faster than the others. Only in those conditions organizations can survive and develop.

Eliminating classic concepts of organization based on feudalization of relationships and partial seeing the parts is a condition for increasing corporative success. This is at the same time a condition for introduction corporative social responsibility, as a new concept and a system of social value which corporative responsibility broadens outside the company borders.

## **2.3. Necessity of introducing corporative social responsibility**

It has already been stated that classical organization and management are one of the reasons of making modern crisis and corporative organization success decrease. Even though it contributed to corporative success in the past, classical organization in modern conditions is not acceptable as it was founded by gigantism, centralism, force, schematics, determinism, hierarchy of functions and authorities, in which each lower level was submitted to the higher hierarchy level. Out of this a concept of feudalization of organization came out, where parts and permission zones were clearly defined in sectors, and where each part of the organization was separate, unconnected, and not related to other parts. The same was the situation of management responsibility for

company success and an attitude that management is only responsible to stakeholders and that there is no responsibility outside of this one.

It is clear that increased movement speed, or turbulence of change and more complex problems which exist enforce application of holistic system concept in an organization, by which parts become less important and the centre of importance moves towards totality. Thus, principle that a part is important but totality is more important in modern business is becoming more applicable and may be of use in preventing crisis and healing consequences it produces. In stated context, in modern conditions we should accept corporative social responsibility as a new paradigm in managing corporative organizations. Thus because the new system is marked as a new system of values being intensively promoted in Europe and whose introduction in into corporative systems represents one of the conditions of entering of transitional countries into European Union [4].

The concept of social responsibility is based upon three R, which means management responsibility for achieving economic corporative success, responsibility for sustainable development of eco systems and ethical action with making and enforcing strategic management decisions. These responsibilities do not function separately, but are interrelated and influence one another which represent synergetic effect compared to partial activity. But the concept of corporative social responsibility broadens responsibility of corporative management outside of company borders, to surroundings or environment where organization functions. Thus, classical feudalized and highly statumized organization and responsibility are eliminated and a system of broadened corporative responsibility is introduced for development of local or national community.

In this context corporative management responsibility for social functions or employees is increased. This particularly applies to transition countries which have not yet accepted corporative social responsibility as a new system of values and new management paradigm and who have more dilemmas connected to the question. The most important dilemma is whether social function has to be a part of business politics of an organization or the responsibility of the state. Even though the stated dilemma was justified in the past it disappears while introducing new management paradigm.

Each organization must have economic function, out of which social function is an outcome, as a part of each business politics. It is also natural as it will be illogical that corporative management takes care of sustainable surroundings development where accompany functions when preserving and improving eco system is in question, by taking part in local and regional projects, taking part in joint contributive actions, etc. Introducing social functions is one of the ways of spreading responsibilities outside of the company borders, as employees are at the same time citizens of a region and with their income they appear as buyers of products and services in the region, which additionally improves sustainable development. As it seems people do not live to bread but bread to live. Income, working conditions, workplace safety and so called I – needs is a base for each personnel and social politics of an organization. For the above stated management should be responsible for only satisfied and motivated people are productive.

Thus, with making strategic decisions one must take care of people, as there is no strategic decision which does not affect people and expenses. You can not make people happy by using force. Before all they must be satisfied and then efficient. Many would wish for the things to be reverse, but it is simply not natural and thus not possible. Causes of many crises in corporative organizations were exactly in the fact that management did not feel responsible for solving employee problems but it was assumed that personal problems belong to individuals. Practice of successful organizations shows that each personal problem is at the same time corporative problem, as individual burdened by personal problems is not productive and this decreases corporative success.

Leading and management structure must know that management in times of crisis gets much more complex than management in normal times. In classical organization it was considered that times of crises require “strict approach” or forceful style, where employee will must be submitted to one manager will, and this is an autocrat. But it is obvious that times of crises require more democratic approach, eliminating force, to be able to deblocka large creative potential of people and put the potential into use to make the organization successful. This is logical as system comes into a crisis because of insufficient freedom of the employees to find solutions of higher quality to reach the aims themselves. Obviously, fear blocks ideas, and people are not ready to risk and apply a new and better way of working, for they would be sanctioned for birocratic procedures, as birocrats do not recognize better effect but whether a certain order was performed. Business practice also shows that democracy and crisis are appositionally proportioned and that the main reason in disregarding social function in organization. As enquiries of London “The Economist”, based on questionnaires of the Centre for International Entrepreneurship in the USA, out of 11 countries which had successfully performed transition from crisis into progress, six had democratic systems and those are: Australia, Columbia, New Zealand, Poland and Spain. Five countries whose transitions graded as less successful did not have satisfactory critical mass of democracy, and those countries are: Chile, Indonesia, Mexico, South Korea, and Turkey [7]. This imposes a conclusion that successfully solved crises imply higher democracy level, or decrease of force as a traditional way of solving problems.

#### **2.4. A need to redefine places and roles of people in a new organization**

It has already been stated that general cause of each crisis comes from lack of ideas. Considering the fact that supplying ideas comes from people, it is only natural that the way out of the crisis should be looked for in people by motivating them to find ways or ideas for more successful functioning of a system. Thus even more as people or collective knowledge have an enormous potential which are not sufficiently used. People have succeeded to use around 3% of their abilities, as it was calculated and that the most of unused potential is in the human brain. If the creativity potential could be increased for 1% this could lead to significant qualitative changes on corporative, national and global level.

Ideas are condition to enable solving and then eliminating mistakes, or eliminating causes for crisis situations. Thus it is rightful to say that corporative system can be left without money but must not be left without ideas. This could be made possible only by making positive innovative atmosphere, or the atmosphere where people will supply ideas and management and leaders support them and enable their operationalization.

Ideas that were spread nowadays come from functional people incorporations. During the period of 15 months over 500 employees at all company levels of General Motors were interviewed. By analyzing interviews, the team came to a conclusion that GM has financial strength, loyalty, committed workers in selling, etc. But the system showed weaknesses. This referred to a relatively bad process of making decisions, insufficient marketing and especially disregarding buyers' judgment and following the competition activities, as well as insufficiently adequate strategic planning. One of the GM engineers defined the problem from his point of view: "We have modern cars, better than Japanese, but if we stay with one model too long this will be a ruin". Not only that types of cars must be changed but also the employees. Before the team formulated its suggestion to the executive management, team leader Roger Smith said: "We didn't start with before formed attitude that we will achieve nothing but with an attitude of expecting unknown to be revealed."

Bad innovative atmosphere is often a result of low motivation for creativity and ideas or bad interpersonal relationships and autocratic way of management. For shortage of ideas strategic management is responsible. They are often not interested in living with changes, as it is easier to manage based on one idea, not considering surrounding influences. Applying obsolete concepts and classical organization and management in stated conditions are indicator of idea shortage. "We still live in the good old times. When somebody visits the company we take them to see production lines in halls, machines, good anterior or exterior, but it is not as important as it once was" [3].

Universality or uniformity is death for ideas. When ideas are killed in people they stop being people. Those who think the same and agree about everything create no ideas. Practice showed that when everybody agrees upon everything something is wrong, as it is not natural that different people think the same, are touched by the same things etc. In the systems where this happens, the idea is that there is no idea, and such companies or national communities are sentenced to ruin.

Practice and numerous researches show that diversity and difference is a good base for making and creating ideas. Only different people can supply new ideas, suggest solutions and be constructive in bringing high quality management decisions. Ideas must be looked for. The base for progress is supplying suggestions by employees, criticizing, opposing attitudes and arguments. This principle created extremely successful "Asia Tigers" who became leaders in many industrial areas and started as underdeveloped. During the 50s of the last century Japan had less national income than former Yugoslavia. Thanks to deblocking and later creating conditions for making new ideas, for a little more than four decades, Japan surpassed all the European and world rival and became one of the most developed countries in the world. Success is even bigger if we consider the fact that Japan is relatively poor in natural resources, which proves that success in natural conditions, does not require large natural resources but knowledge and ideas as the most valuable resource [8].

Need to redefine place and role of men in corporative systems will be even more important in future. Computer technology, mechanization and robotization are often appreciated as having magical power, especially when talking about neuron nets and other achievements of new computer generations. In stated circumstances men can be marginalized even more, which could influence success negatively and bring about crisis situations. That is why we need modern and professional management and motivated people more than modern technique and technology. This comes out of indisputable attitude that new technologies increased productive manpower, before all in taking manual, operative and executive work. But it seems that people will never be able to produce a machine which will think and create ideas. If it could come to that people would put their own survival in question. That is why the great Serbian scientist N. Tesla said: "Each invention I made came from my head. If I wanted to improve it, this also came from my head". So, mind and giving ideas, their operationalisation is only distinctive to people and that is why we have irreplaceable role. In the stated context we must bear in mind that performing routine and operational business to mechanisms, creates better conditions for making innovations and ideas as the most important resource of an organization. Mechanisms in routine and operative work are efficient but people are irreplaceable in creating and operating new ideas.



Organizations which would disregard people in the process of organization will certainly come to crisis or increase of entropy of system functions. This applies even in conditions of high organic composition of capital, or scientific, technique and technology progress, for people and their relationships and not technology are key factor of corporative success.

### 3. CONCLUSION

Out of the stated we can conclude that in modern conditions it is necessary to introduce new concepts in management and organization and that obsolete concepts can not solve modern problems, as the problems themselves appeared for using outdated concepts. This specifically applies in modern, turbulent and uncertain conditions of business which will force searching for concepts and technologies that will prevent crises from emerging and if at all they appear people will react with new concepts.

The text pinpointed four concepts which can be of use for achieving success in corporative organizations and management. Reengineering is a concept of reaction to quick, radical and fundamental changes which can be an answer for turbulence in modern business. The concept showed satisfactory results in Xerox, DuPont, and Siemens

And other successful world companies. But we should be, nevertheless reserved towards previously stated as fundamental and radical technological and organizational changes are relatively easy to perform but radicalization of human consciousness can hardly be done. So, limiting factor in reengineering process appears to be human potential, or their consciousness of organization culture and behaviour change.

Application of holistic system concept is necessary for more open world at global level, which looks for transparency and border elimination between some parts of the organization, between parts and totality and between the organization and the environment it functions in. Even though this concept has been known since Greek Philosophers it has not found its application in research, organization and management of organization systems till the present day. Adding to this we should bear in mind growing difficulties in its application in practice, especially in complex systems where it is hard to define borders of specific subsystems and sources and causes of some problems.

The concept of corporative social responsibility is of a newer date and was imposed as a new system of values preferred by EU. It comes out of Holistic system concept and in future will become more and more important as consumers appreciate companies which are responsible towards the environment in which they function. In the stated context 3R will each in its own way and as a whole gain more importance in future.

Stated concepts can be implemented with changing traditional comprehension of people in organizations. It shows that people are the only thinking factor of the organizations which can produce more gains than loses. That is why modern management must integrate rational and emotional side of people, or left and right part of human brain in order to achieve satisfactory results. Companies which succeed in achieving the stated, even if partially, will enable their survival, and if stated integration gets to the higher level they can go to leading position of business.

When thinking about modern world crisis, there are two large illusions that are present before all in Serbian management, and birocratic theory and practice of management. The first is that genius individuals may pull the companies out of crisis by applying old, classical concepts of organization and management and the other is that it can be done by anyone who applies new concepts. Reality is in the middle. We should bear in mind the thought of R. Jungk: *Future of mankind is not in vast space but in a man himself, who has developed and used only a minimal part of his abilities so far.*"

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## EXAMPLES OF PROMOTION OF INNOVATION MANAGEMENT TECHNIQUES PROJECTS

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***Summary:** Innovations occupy significant position in new knowledge based society (KBS). In the last years a large number of methodologies and tools has been developed or innovation management which facilitate the innovation management within firms. This paper shows main goals and applications of innovation management techniques (IMT) as well as the most significant projects for their promotion.*

***Key words:** innovation, innovation management technique (IMT), Intellectual property rights (IPR), project.*

### 1. INTRODUCTION

Innovation as a concept represents application of new and improvement of ideas, procedures, technological equipment, services, processes and similar bringing new benefits and quality in the application. Innovation comprises the action by which the input effects of a process and/or system are decreased, i.e. the expenses of production and administration, material, energy and similar, and the output effects of the process and / or system are increased, i.e. productivity or exploitation of equipment or time is increased, the quality of products or services is improved, safety is increased, the reject is decreased, placement is promoted, etc., i.e. each measure leading to increase of competitiveness.

Innovations can be classified into the following basic categories [16]:

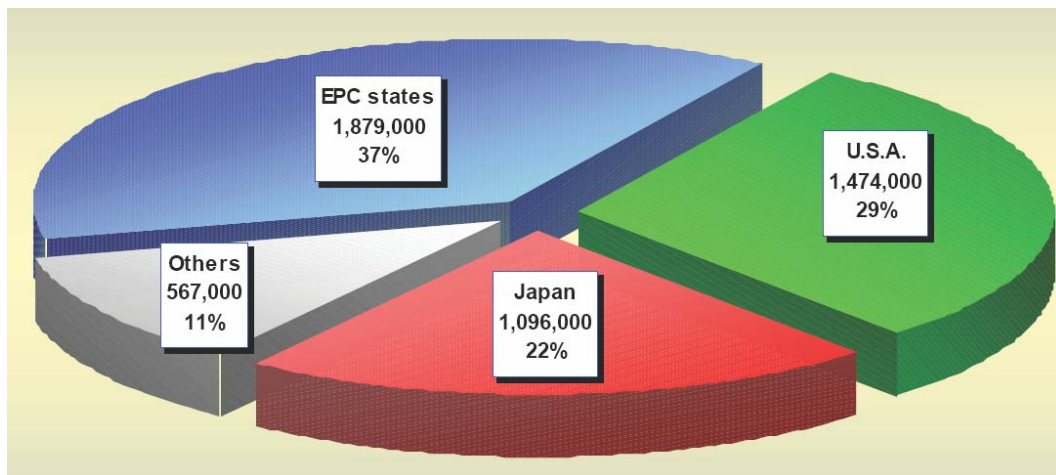
- products design (technological innovations),
- processes innovation,
- innovation in the field of organization of labour and business operations,
- marketing innovations,
- business model innovation,
- innovations of services, etc.

From the mentioned classification it can be perceived that the innovations relate to: innovations in the field of classical and new material technologies and innovations in the field of new immaterial technologies. Lots of authors claim that basis of the new knowledge based society (KBS) is formed by new immaterial technologies, and also, the basis of science-technological progress is the perception of global developmental aspects of new immaterial technologies [2-5]. This fact is also confirmed by Drucker, 1996 [5], which in his book: "Innovation and entrepreneurship" says that new technologies are not only new materials, processes or technologies but those are also new cognitions on manufacturing processes and new company management.

According to many authors [1, 3, 5, 7-11, 16], innovation in the narrow sense includes intellectual property, containing the following categories:

- invention,
- patent,
- license,
- other intellectual properties (new product, technology or design, technical promotion, useful suggestion, etc.).

The percentage expressed largest number of patents in 2002 belongs to Europe (37 %), then follows the USA (29%), Japan (22) and other only 11 % (Figure 1) [12].



**Figure 1:** Patents in force world-wide in 2002 [12].

## 2. INNOVATION MANAGEMENT TECHNIQUES (IMT)

**Innovation Management Techniques (IMT)** can be defined as a set of methodologies and/or tools which facilitates the management of innovation within firms [6, 13]. Also, Innovation management techniques (IMT) represent new initiative launched by TII (*Technology and Innovation International*) association, available on the Web site: <http://www.tii.org/> [15].

Innovation management techniques scope is very broad and may involve one or more of the following techniques (creativity techniques, innovative projects' assessment, innovation assessment tools, SWOT analyses, innovation audits, financing innovation, search for partnerships, negotiating R&DT, patenting, licensing, etc.).

The delivery selected method is a one-day event, structured neither as a formal training session nor as a formal commercial presentation, but rather as a Master Class, with participants interested in some innovation management technique receiving the information necessary to understand the technique, its background (when and by whom it was designed, implemented and tested), how to use it properly, the expected results, as well as the formal agreements proposed by the owner to potential users.

It has a number of objectives, namely [13]:

- creating a platform where participants find, share and acquire innovation management techniques (model forms, methodologies, software, training materials, toolkits ...) developed, tested and introduced by professionals from companies, consultancies, higher education institutions, research centers, and public institutions, etc.
- creating a platform where participants find, share and acquire innovation management techniques (model forms, methodologies, software, training materials, toolkits,) developed, tested and introduced by professionals from companies, consultancies, higher education institutions, research centers, and public institutions, etc.
- giving an option to both parties of following up the initial contact with a formal agreement (license, franchise, partnership, copyright, free use, commercial, geographical representation, etc.) in order to boost the diffusion and uptake of innovation management techniques in Europe.
- giving to the experts who have developed, tested and formalized innovation management techniques the opportunity and
- introducing, promoting, spreading and sharing their techniques with a target audience working in the field of innovation support.

The activity aims of the innovation management techniques (IMT) are [14]:

- Assisting the national bodies in designing and realizing the supporting measures on IMT for SMEs and
- Stimulating the transnational exchange of knowledge and methodologies in this field.

The Innovation Management Techniques (IMTs) promotion is directed at supporting national and regional organizations efforts, both in the public and private sectors, promoting structured innovation management techniques in SMEs. It adds-on to the previous.

The promotion of innovation management techniques (IMT) includes [14]:

- Technology watch,
- Marketing of Innovation,
- Benchmarking,
- Intellectual property rights (IPR) or intellectual property rights (IPR) management,

- Design techniques,
- Manufacturing systems,
- Value analysis,
- Project development,
- Creativity simulation methods,
- Quality techniques (e.g. TQM, QFD, Six sigma),
- Business process reengineering (BPR) and etc.

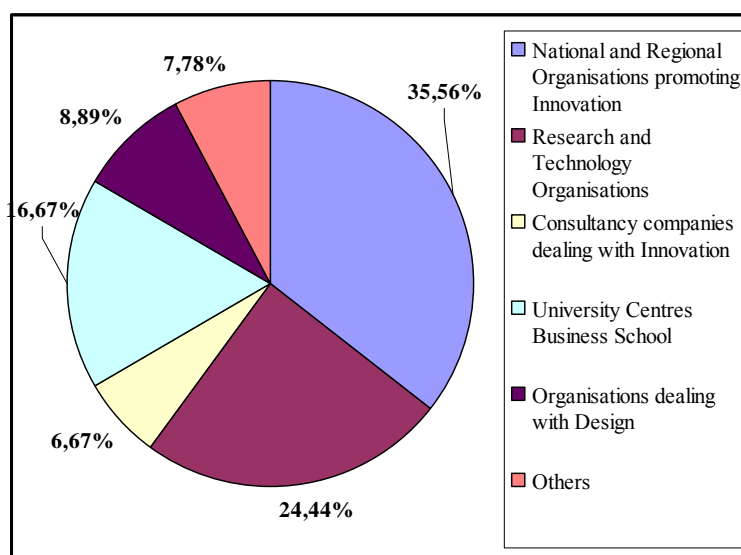
### 3. EXAMPLES OF PROMOTION OF INNOVATION MANAGEMENT TECHNIQUES PROJECTS

Since the middle of 1990-ties up till now, the European Union (EU) has launched series of projects to promote innovation management techniques (IMT). The most significant of them are shown in Table 1.

According to the data from the European Commission (EC) publication [12], the percentage expressed highest number of institutions promoting innovation are: National and regional organizations (35,56 %), Research and technology organizations (24,44 %), University centers business school (16, 67 % and etc.).

**Table 1:** Example of promotion of innovation management techniques (IMT) projects in European Union (EU).

No.	Acronym	Project's title
1.	ACCESS	Accompanying Measures for the IMT (Innovation Management Techniques) projects
2.	AIMS	Applied Innovation Management for SME (Small and Medium Enterprises)
3.	ANIMATE	Action for Innovation Management Techniques in Smaller Firms
4.	DENTOT	Organizing a Network for the Dissemination and Promotion of Design Engineering Tools and Techniques
5.	EDIT	European Design Innovation Tool
6.	FINN-IMT	Finnish IMT (Innovation Management Techniques)
7.	IDEAS	Integrated Product Development Expertise Applied to SME (Small and Medium Enterprises)
8.	IMPACQT	Diagnosis of SME (Small and Medium Enterprises) and implementation of productivity, creativity and quality techniques in order to have an impact on SME (Small and Medium Enterprise) competitiveness
9.	IMTI	IMT (Innovation Management Techniques) Iceland
10.	IMTIC	IMT (Innovation Management Techniques) for Industry Clusters
11.	IMT-NL	IMT (Innovation Management Techniques) in the Netherlands
12.	IMTOS	Implementing IMT (Innovation Management Techniques) at Operative Level and Strategic Level of SME (Small and Medium Enterprises)
13.	INVENT	Method for targeted economic-oriented research in SME (Small and Medium Enterprises) invention management
14.	MAIN	Management of Innovation
15.	MAP-IMT	Accompanying measures to promote Industrial Design Methods in SME (Small and Medium Enterprises)
16.	MARKPRO	Implementation of Market Oriented Product Innovation in Danish SME (Small and Medium Enterprises)
17.	MINTIN	Merging of IMT (Innovation Management) Techniques in Norway
18.	PARTNERS	Promotion of Innovation Management Techniques in the field of sub-contracting
19.	PRIISME	Promoting IMT (Innovation Management Techniques) in Israeli SME (Small and Medium Enterprises)
20.	PRISM	Promoting Innovation Management Techniques in SME (Small and Medium Enterprises)
21.	PROSEGISIS	Hellenic Innovation Management Techniques Initiative Project
22.	PROTEGIL	Promoting Innovation Management Techniques in the Great-Duchy of Luxembourg
23.	SIMTI	Swedish Implementation and Integration of Management of Technologies and Techniques for Innovation
24.	TEC+	Technology & Innovation Audit for the Development of the Portuguese Industry
25.	TIPPS	Transnational Innovation Pilot Programme in SME's (Small and Medium Enterprises)



**Figure 2:** Distribution of IMT contractors according to type [12].

#### 4. CONCLUSION

Innovations and innovation management occupy a significant position in projects and framework programs (FP) of the European Union (EU).

The European Union (EU) in the last years has financed a large number of projects for promotion of innovation management techniques (IMT) (Table 1).

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## LAW, ECONOMY AND MANAGEMENT IN MODERN AMBIENCE

**Sulejman Kadušić**

Natron-Hayat d.o.o., Maglaj, BOSNIA AND HERZEGOVINA

**Summary:** *The research purpose is to show the concept and role of management and labour union in overcoming crisis. The starting postulates that the unions and management often come into conflict either because of diverse needs and different views on the causes of crisis and on overcoming crisis or due to ignorance of what is actually crucial for both parties. In the introductory segment, general indicators are given on crisis and its effect on company and of the terms in which it originates. The second part of this paper shows, i.e. defines the union and management and their role in overcoming the crisis. Finally, the opinion on overall state, significance and role of the union and management is indicated.*

**Key words:** law, economy, management, modern ambience.

### 1. INTRODUCTION

It is a fact that society is constantly changing. However, it is not a phenomenon that does not impact business operations of companies. Parallel to the changes in society the economy changes as well. The fluctuations happening in the economy can vary. The economic upturn oscillations are present in each economy and they are mainly predictable. Their cycle has four phases: prosperity, recession, depression and revival. Apart from these also possible are other economical phenomena as well, such as inflation, lack of resources, standard downfall and similar. Moreover, the changes on a concrete market can also be caused by competitors, suppliers or buyer, but media as well. Not only that a company has to pay attention to such changes in the environment, but it also has to respond adequately.

The company's passiveness toward the changes is leading it into danger. It then becomes less competitive and loses its market, until the company's existence is jeopardized as well. Such negative changes in the company's business operations with the tendency of further worsening are called the company's crisis [7].

It is beyond doubt that not any change endangers a company. But it is also a fact that certain companies are not prepared for changes and do not have mechanisms that can timely point out to dangers that can appear quietly and simultaneously from all sides. Equally important for our country are the historical consequences, concerning non-market conditions of economizing in the socialist society.

As the consequence of it, large number of our companies is in the state of crisis. The extensive indebtedness and illiquidity are the most frequent problems of our companies.

Turbulent changes as a phenomenon pointing out to speeding up of the increasing complexity of situation is present throughout the world. Therefore, it can be said that today we are living in the world of changes, but in the future there will certainly be more of them. As the consequence, crisis of a company in the future is a certainty. Thus, constructing a system of detecting the changes and warnings to danger should be the priority of companies that want to survive in this century as well [6].

### 2. MANAGEMENT AND UNION ROLE IN SOLVING CRISIS

When an economy or a company come to the state of crisis, it is necessary to find adequate ways for overcoming it. In such circumstances, management as the managerial function of a company gets a special role. Formed within management is the crisis management with its basic function- finding out the way out of the crisis. On the

other hand, union as a form of workers' organizing helps in overcoming the crisis by different activities, encouraging the employment, by giving suggestions and influencing on the state of employment in the country. The end of 2008 and beginning of 2009 has been marked by a large crisis, the global recession that has spread from America throughout the world. It has especially caught our country at the end of 2008, although the impacts are still present and, according to some forecasts, the fall of 2009 will be under heavy impacts of the crisis. The circumstances as such have lead to the downfall of activities of the overall economy, the downfall of production and especially of the employment.

The proper company management and state management come precisely under these circumstances- the crisis states. In my opinion, it is relatively easy to manage a company or state when "everything functions the way it should"; problem arises when "nothing is as it should be". In such circumstances it is necessary to find ways for adequate organizing of business operations, functioning of state, to find ways for decrease of unemployment, raise production "to its feet".

## 2.1. Labour unions in crisis situations

The union confederation can be defined as association of voluntarily associated Labour Unions for the purpose of joint interests and goals. The union branches are voluntary interest organizations of workers of companies, institutions and other business forms of economizing, of the same or related activities. The union of municipality-city is a form of activity of the Confederation and branch unions on the territory of the municipality- city. The syndical organization- committee is an organizational part of the branch union [8].

Since Bosnia and Herzegovina is a complex state, according to its organization, all levels of the authority are highly complex and voluminous. Regarding union, it is organized in both entities- the Republic of Srpska and the BiH federation. Their activities, the measures they undertake and what they stand for are a great deal similar or even the same. Yet, they appear as separated unions.

The unions in both entities mostly represent the workers employed in public sector companies and massively privatized companies, as well as the employed in public service. In BiH there are two separate union confederations, one in the FBH and the other in the RS. In the FBH, The Confederation of Independent Unions of Bosnia and Herzegovina (CIUBH) numbers about 68 percent of work force in the FBH, according to the estimates. It consists of 23 industrial branch unions.

The Confederation of the Republic of Srpska (CRS) has membership of about 66 percent of the work force in the RS, and it gathers around 14 branch unions.

The number of members decreases because the workers are becoming dissatisfied or unemployed or surplus or they stop receiving the pays ("fictive or pro forma workers"). It had as a consequence decrease of the unions' possibilities to collect the membership fees. Thereto, some branch unions have singled out of the structure of the confederation (for example, the union of agriculturists in the FBH and the union of workers in metal-processing industry in the RS), as the result of these changes, both confederations have deliberated on the plans on consolidating the systems of branch unions through combining the related branches.

*The Confederation is autonomous and independent in relations with state and operations bodies, managing bodies, political parties, business and other associations, religious communities and in relation to the other unions it realizes the role as the non-party organization tending to construct democratic society based on rule of law and social justice.*

In crisis situations and any other circumstances, the unions will differently organize, adjust themselves and offer different solutions. In any situation, thus also in the crisis one, unions form congresses, either within the country or the international ones, with the basic subject of discussion- overcoming the crisis state or some other actual topic or situation.

The goals and tasks of the Confederation of Unions can be defined in any situation as the following [8]:

- connecting members into the syndical association for faster and more efficient engagement in accomplishing goals,
- democratization of political and economic system in favour of workers,
- democratic coordination and adjustment of special interests of unions,
- constructing joint basis for negotiations and entering into national collective agreement,
- initiating and constructing the attitudes on issues relevant for the economic and social position of the total memberships regulated by laws and other enactments of state bodies and employers,
- protection of rights of labour and on the basis labour,
- ensuring syndical rights and freedoms in accordance with international standards,
- ensuring and improving safety at work,
- providing legal assistance and protection of workers' rights regulated by law, collective agreement and employer's enactments,
- gratuitous proxy of workers- union members before the employer, courts, other state bodies and associations,
- realization of union solidarity,



- special and union training of the members and union personnel,
- ensuring union and public briefing,
- creating conditions for development of union entrepreneurship,
- advancement of cooperation and enrollment into the international union organizations,
- other issues of common interest for the members.

For the purpose of realizing goals and tasks, the Confederation applies all forms of union struggle, especially [8]:

- emphasising demands relevant for the interests of workers before the competent authorities,
- executing legislative and other initiatives towards the employers' associations, administrations' assemblies and other system's institutions,
- warning the competent entities to justifiable demands of the members,
- negotiating with partners for the purpose of accomplishing and improving the workers' rights,
- accordance and consultations to reach an agreement,
- concluding and following applications of the provisions of national, collective agreement,
- boycott of decisions and actions opposite to the workers' interests,
- public protests and pressures,
- strike.

Under our circumstances we are the witnesses that the unions in crisis situations turn to strikes- partly due to dismissals, partly due to unpaid salaries and unpaid insurance for the PII. Of course, it cannot be said that these activities are not justifiable; yet, are they always correct and under any circumstances? None realistic employer, appreciating even a little his workers, will not behave in the way of not paying out salaries, not paying the contributions, even the minimum ones. The problem occurs when the company enters into crisis, when it is not in a position of settling the current obligations. However, do workers understand such conditions and circumstances? Certainly not, in our circumstances. It is the easiest to organize a strike and ask for your rights that, in most cases will be difficult to be fulfilled or be partially fulfilled.

Perhaps the unions should perceive in more detail the complete image and accordingly try to rehabilitate the crisis state by some other actions.

## 2.2. Management and crisis

In crisis situations, but also in any other problems that do not have to be marked as crisis, the most significant role in a business entity belongs to the management- the managerial structure of the company. The management in itself is often one of the causer of the crisis occurrence.

Crisis management as an institution implies those persons or groups of persons that are the driving force at planning, conducting and control of the goals, strategies and measures for preventing or overcoming the crisis and which, in fact, therewith take over managing the company that has fallen into crisis during the process that is critical for the survival [4].

Therefore, the crisis management is tasked to take out from the crisis the company that needs to be rehabilitated and to capacitate it for long term existence. Particularly, he has to take care of maintaining the sufficient preparedness to pay and preserve and nurse the potentials that are sufficient for realizing the purpose of the company, i.e. for ensuring the liquidity, capital up keeping, i.e. ensuring success and maintenance of the substance in medium terms.

The crisis management can be composed of persons or groups of people both from within the company itself and outside as well. Various combinations of crisis management appear in practice. The following figure shows the holders of crisis management that in principle can be taken into consideration.

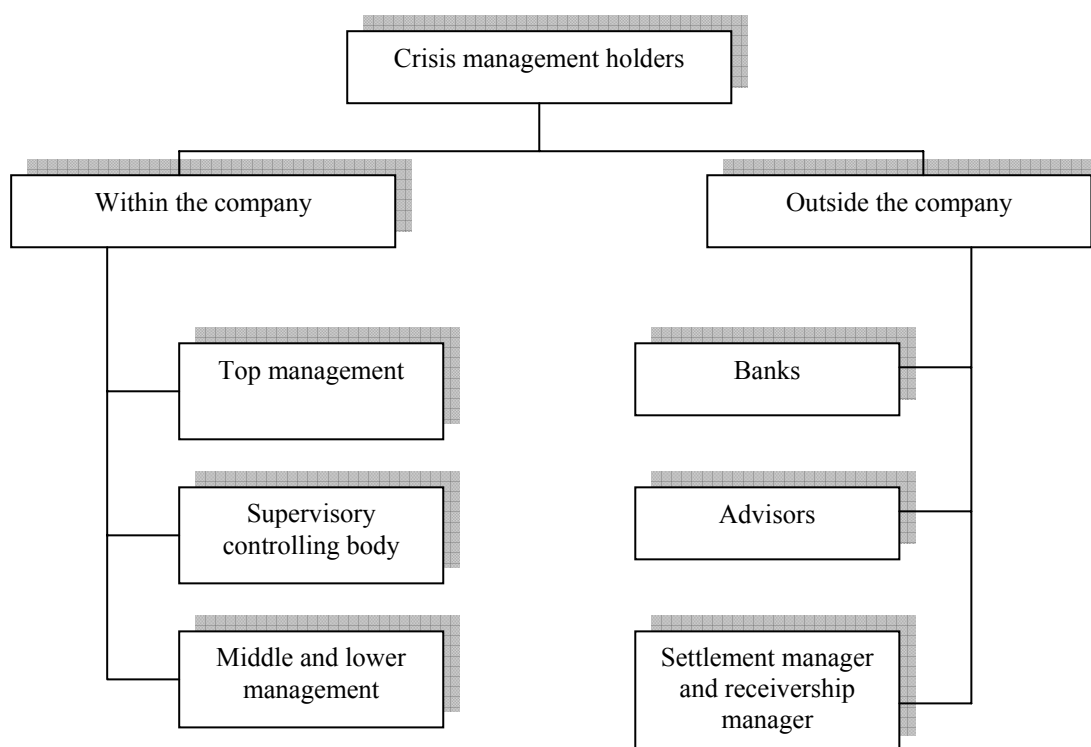
Apart from them, other institutions and individuals can also play an important part in overcoming crisis, for example, state institutions (ministries of agriculture, employment bureaus, courts, and social insurance holders), suppliers, buyers, associations or the company's council. However, they are not actively engaged in it, but they are rather engaged in the sense of providing certain support.

The key management activity is choosing the strategy for coming out of the crisis. Each crisis, depending on the circumstances and causes of its origination, requires different approach and different strategy of defining the coming out of it.

The general steps that the management should undertake at selecting the strategy for recovery, can be subdued under the following [5]:

- identifying the crisis situation,
- analyzing the state- is there a possibility of recovery or should it be forwarded to the company's liquidation;
- defining goals- what is wished to be achieved by the strategy of exiting the crisis,
- planned results,
- available resources,
- the time needed for recovery and conducting the recovery strategy,
- conducting the defined activities, coordinating, and tracking.





**Figure 1:** Holders of crisis (recovery) management [7]

### 3. CONCLUSION

Since the key subject today in all economic, but also casual conversation is crisis, this paper has accordingly tries to briefly bring close certain aspects of crisis in the segment of union actions and management. It is pointed out do unions imply, their goals and tasks and on the ways of their activities in crisis cases.

In our circumstances, unions and management of companies often enter into conflict. Unions adhere to their rights, to workers rights and obligations that the employer is obligated to fulfill. On the other hand, our companies' management, especially of the privatized companies, is not enough experienced in fighting all the adversities off modern age? It is my belief that this is the greatest problem of our companies that is difficult to be changed and improved in a shorter period of time.

Thus, the unions and management should consult and find common ways of coming out of crisis. The union should be the external holder of the crisis management, highly important for conducting the company's recovery strategy.

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## **RE-ENGINEERING OF BUSINESS PROCESSES IN SERVICE ORGANIZATIONS ON INTERNATIONAL MARKET**

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***Summary:** Today in the sector of services, in national and global plan, the most dynamic movements happen and the biggest changes. The rise of roles of the services in made social product is on the rise. The development and meaning of service sector causes numerous positive occurrences like increase of employment, growth of international exchange, technological and economic changes etc. Constant changes on world markets, economy, customs, level of technological changes, caused new and dynamic goals and strategies. Those are ambitious and radical strategies that ask for changes on all levels in the organization. As an answer to manager search for mechanisms for defining and achievement of ambitious goals, new manager concepts occur, and one of the most familiar is RE-ENGINEERING OF BUSINESS PROCESSES, which brings huge improvements in performances of service organizations on international market.*

***Key words:** services, economical development, international economy, human resources, re-engineering of business processes.*

### **1. MODERN MOVEMENTS IN SERVICE SECTORS**

Modern world business is characterized by internationalization of capital where multi-national companies dominate, powerful presence of state in business and the greatest influence of service sector that leads to globalization of world business. Objective existence of confusion of modern world, and every national community and state, is seen, in the lack of all factors of production (global resources), on one side and unlimited want for services and goods by humans, on the other. The exit from that is in faster, stable and equal development of world business, and more than that. It is reach for the proper level of growth of world business and general material welfare in the world, but also preservation of environment, affirmation of human rights and freedoms, development of democratic values and institutions in every state community and region of the world [1].

Service sector in international economy become important because of the changes that happened in the field of economy in the last few decades. Among actual question which are in focus of attention of economists of the twentieth century, we can certainly put the question of the place and role of service business. Structural changes and tendencies of increase of the role of service business are present in global measures. Developing flow in the last decades of the twentieth century is characterized as de-industrialization with a few basic trends which are: slow down of the growth of primary and secondary sector; decrease of productivity of work in material production, intensive processes of automation and concentration of mass production on global level, change of structures of world trade by increase of sale of services.

Service sector has growing level of growth mostly thanks for international exchange and trend of globalization of world economy. Globalization of world economy is directly urged by great improvement in traffic and communication technology, liberalization of trade and investments, changes in organization of the company and strategies of changes in human needs and habits.

Service sector usually does the following jobs:

1. retail and wholesale
2. hotels, restaurants
3. traffic, warehousing and connections
4. financial mediation

5. activities connected to real estates
6. state management and defence
7. education
8. health and social work
9. other communal, social and personal service activities

**Table 1. Participation of service sector in social product (in %)[7]**

Country	1987	1997
The USA	68,3	71,4
Canada	66,8	71,6
France	66,9	71,5
Spain	59,3	70,9
Germany	64,0	69,9
Italy	61,9	66,9
Australia	64,9	70,6
Japan	56,8	60,2

## 2. NEW WAY OF DOING BUSINESS OF SERVICE ORGANIZATIONS

In order to survive and keep their place on the market, service organizations must adjust their business to the wishes and habits of consumers. One of the ways which is often used is re-engineering of business processes. Re-engineering is a concept in fulfillment of radical organizational changes [2] It appeared in the 90s of the last century as a new mean of redesigning of business processes and creation of conditions for efficient business. Re-engineering opened new perspectives in the development of organization, and also, this concept of organizational changes had a certain media attention and populatization, as re-engineering of business processes or re-engineering.

Basic characteristics of re-engineering are:

- combining jobs,
- natural schedule of certain phases of the process,
- designing of many versions of the process,
- participation of employees,
- conducting business where it has the most purpose,
- self-control,
- hybrid structure of the process and
- changes of the key organizational dimensions.

Key characteristic of re-engineering is combining of jobs, or different jobs in one whole. In this way there is a possibility to hire smaller number of employees, better usage of time, efficient coordination and control. Conducting of re-engineering is 'spread' of responsibilities and more complete participation of employees in process of deciding, by which the following is achieved:

- management on high organizational levels is not burdened,
- the responsibility of direct workers is strenghtened,
- rational usage of time,
- decrease of expenses,
- efficient performance of planned processes and
- employees are more motivated for work.

In order to define the goals of re-engineering, it is necessary to change the behaviour of employees, structure, develop trust, better motivation, self-control, to introduce new values, new contents. Initial work is to promote new mission and goal of organization, new strategy and relationship of the management to employees. The main goal of re-engineering is satisfying of these demand:

- decrease of expenses,
- improvement of quality,
- increase of production and
- improvement in speed of work.

Re-engineering is not just repairing and marginal changes but radical actions and innovations focused to productional processes, products, technology and other fields. When the process is redesigned, the job evolves from narrow oriented task in multi-dimensional. People who were completing orders, now can make decisions.

Functional sectors lose their sense. Managers do not act as main chiefs but as instructors. Employees orient more on the needs of the consumers and not to needs of employer. The values change too as an answer to new demands and urges. Practically all aspects of organization change.

Changes that happen when some company redesigns its business processes are these [3]:

- *Change of business units* – from functional sectors to process teams – Process teams change old structure by sectors. Instead of structure where people are tightly connected only to their task and not organizationally connected, there occurs connecting to teams.
- *Change in the way the task is completed* – from simple to multi-dimensional tasks – Current way of business was such that employees were specialized for only one part of the job or task. The process team works in different way. Members of process team share responsibility for the whole process not just one part.
- *Change of the role of man* – from control to strengthening – Traditional companies employ people who are expected to complete tasks according to some regulations. The company who is redesigned does not want employees who will follow the rules, but those who will create their own rules. Members of process team can communicate, think and make decisions together.
- *Change of preparation of task execution* – from training to education. – Companies that are redesigned emphasise the education of employees or employment of educated people. Training increases skills and capabilities and learns the employees 'how?'. Education increases their understanding and learns them 'why?'. In flexible and changable environment is almost impossible to hire people who know all, so constant education is imperative in redesigned companies.
- *Change of criteria of improvement* – from doing to capability – a reward for a good job. Improvement in a job is function of capabilities, not of doing something.
- *Change of the role of managers* – from manager to coach. – Process teams which are made of one or more people do not need managers. They need coaches. Teams ask for advices from coaches and they help their teams to solve problems.
- *Change of organizational structure* – from hierarchy to 'horizontal'. Basic unit in traditional organization is functional sector, that is group of people who do similar tasks. In the company that is redesigning, business is organized in processes done by teams. Line of communication is different because people communicate to each other in any way they want. Control is left to people who do the process.
- *Change of the way managements function* – from controller to leader – In re-engineering successful managing of business depends more on the attitude and strain of employees, than activities of functional managers. Management has a responsibility for process of re-engineering without direct control of people in process. In traditional companies managers are separated from operations. As leaders in the companies which are redesigned, they come closer to real work. They will take part in shaping process and providing of motivated employees and care about the execution of the job. The ways tasks are done have been changing, as well as people who have to do them, relations between those people and their managers, their way in career, way contributions are measured of employees and compensation, role of manager and management.

### 3. THE ROLE OF EMPLOYEES IN IMPLEMENTATION OF CHANGES

People are basic force of organization so successful business depends on the way companies choose and organize people. Small number of leaders in organizations has recognized the need for radical redesigning of philosophy of the company that demands focus on individual learning, or personal development. People with high level of knowledge through their constant urge to learn, get results that they want in life, and from it the spirit of organization that learns comes from.

The biggest obstacle is the resistance of employees on all organizational levels. The question is why employees resist to changes [4]?

- *Estimation of current condition.* – Although new way of work could be better, people do not think that old way of work is 'so' bad. They want to improve business, but mostly by small corrections and not drastic changes.
- *Definition of future condition.* – Employees might want changes, but they do not agree with chosen processes and areas for a change. Their priorities and expectations are different. If the problem is in fact that wanted state is not possible to achieve, it is necessary to know why.
- *Implementation.* Although every one agree that current way of work is very unsatisfactory, new way can look unachievable, and process of changes seems to be too hard. Except that, there might occur the lack of resources – time, people and money. Those who plan changes, must communicate and tell employees about the reason for changes. Sometimes the first step is in acceptance of the need for change, educate employees about the state of business and how to understand it.

Companies and people do not have a choice: they have to change in order to survive. They still can choose the way in which they are going to change. Decision about changes using organized, structural methodology is the right choice of successful organizations. IN that way the changes happen in fast and cheaper way, with minimal losses and break between people. Before we conduct re-engineering, it is necessary to explain the aim of radical changes, way of changes and possible effects – for organization and employees. The idea of changes should be promoted – through conversations, meetings, intern press, radio, television or on some other understandable way. It should be focused to termination of rumors, indecisiveness and fear for the future, and on creation of climate that is good for changes and challenges that bring changes. [5].

#### **4. CREATION OF SYSTEM 'ORGANIZATION THAT IS LEARNING'**

The problems were always solved if they were split to more simple problems. It practically means that one complex task becomes soluble, but the real sense of connection to the whole is lost. It is necessary to break the illusion that the world is made of inseparable elements. When that illusion is broken, than we have an organization that is learning – organization where people continually spread their creative capacities according to results that really want to achieve, where new way of thinking is supported, where new goals are freely set and where people constantly learn how to work together.

Organization that is learning must be constantly improved, taking care about five disciplines:[6]

- *Systematic thinking*
- *Personal development*
- *Mental models*
- *Creation of joint vision*
- *Team learning*

##### ***Systematic thinking***

Systematic thinking is conceptual and methodological frame developed in the last 50 years with an aim to explain complex occurances and ways their could be used in wanted direction. Business, and every thing that people do, are connected and as a rule it is difficult to discover their influence. It is common mistake to see only isolated parts of the system ignoring inter-dependance of elements.

Today systematic oppinion is more necessary than ever, because the world is bigger, more complex and more dynamic. Systematic thinking is about changed way of thinking from the observance of parts to observance of the whole, from seeing people as weak individuals to people who are active participants in creation of their future, from actions in the present to creation of the future.

##### ***Personal development***

Organization learns through individuals who learn. Individual learning is not organizational learning, but without organizational learning does not exist. Learning is not only getting more information, but improving capabilities to create results that we want in life and that process in long-lasting. Organization that learns is not possible untill on all levels of organization there are not people who learn. These people are turned to work more and take more initiative. They have wider and stronger sense of responsiblities at work. They learn faster. Because of this, many organizations urges improvement of personal development among its workers, because they believe that it will strengthen the organization itself.

##### ***Mental models***

Mental models are deeply rooted assumpations or oppinions that influence on someones understanding of the world and according to that application of some actions. Very often people are not aware of their mental models and influence that it has on their behaviour. Two people with different mental models see and describe one event in different way, because they see different details. The way mental models shape our perception is important in management too. In traditional autoritative organizations basic regulations of functioning are planning, organizing, leading and controlling. In organization which is learning those are vision, basic value and mental models. Healthy company will be the one where people will succeed to develop mental models to face any situation.

##### ***Joint vision***

Every person has a vision or an image of what they want to achieve and that is called personal vision. Joint vision is when people of all levels of organization have same vision and it expresses their personal visions. In one company joint vision changes relation of people to company. That is not anymore 'their company' but it becomes 'our company'. Joint vision is the first step that enables people to start working together and creates one

joint identity of people who think in a different way. Joint vision is very important for organization that is learning. Organization can not learn if there is not a joint vision. Vision brings new way everyone thinks and acts, and supports taking risks and doing experiments.

#### **Team learning**

Team learning is very important for organization, because teams and not organizations are basic units of learning in modern companies. It can be said that if teams do not learn, the organization does not learn. Team learning is a process of focusing and development of capabilities of the team to get wanted results. It is based on disciplines of joint vision and personal development, because successful teams are necessarily made of talented individuals. Today, there is a great need for improvement of team learning, because most important decisions are made by teams.

## **5. CONCLUSION**

Development of business and society leads to expansion of service sector, so it became dominant force in developed countries. Economic service, as was proved, not only increases quality of human life, but also with high working intensity, to capable people for working brings new employment. In that sense, social community and economy, which does not bring the growth and development of service economy, is not possible to reach high levels of rate of business growth and employ more and more people, and provide prosperity for all people. Modern and well organized system of services is an important dominant of total economic prosperity and necessary condition of joining of business in modern world circles.

In order to survive and keep their place on the market, service organizations must adjust their business to wishes and habits of consumers. Constant changes on world markets, economy, customs, level of technological changes, caused new, more dynamic aims and strategies. Those are ambitious and radical strategies that demand changes on all levels in the organization. As an answer to managing search for mechanisms to define and achieve more ambitious aims new managing concepts occur, and one of the most popular is re-engineering of business processes. Companies and people do not have a choice. They have to change in order to survive. Making changes by application of organized, structural methodology is the right choice of successful organizations. Since, all companies are trying to conduct changes, those who can do it successfully should have advantage under competition. Re-engineering demands other individual competences of people, new style of leadership, organizational climate and culture. Management of changes is a key factor for changes to be successful.

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## APPLICATION OF ELECTRONIC DATA EXCHANGE IN BUSINESS STRATEGY OF TRANSPORT COMPANIES

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***Summary:** Intensive development of information - communication technologies (ICT) caused the globalization of business processes and markets through various networks and services. Using modern information technology and electronic communications, improves the overall system of complex connections with clients. Especially the development of electronic data interchange made cooperation between business organizations easier. The essence of this paper relates to informational connection businesses and traffic flow of documents in digital form using electronic data exchange as a platform that aims to facilitate the availability and flow of information and interaction among business partners. This problem is extremely important from the point of informational integration of transport companies of European countries and beyond. We do not only talk about only reducing costs, but direct contribution to overall business results.*

***Keywords:** electronic data exchange, reservation systems, documentation in digital form.*

### 1. INTRODUCTION

Transportation companies are typical representatives of spatially distributed systems that have the need for extensive processing of information and transfer of information on small and large distances, simultaneously. Information sharing is an important aspect as well as the movement of goods. This exchange is, in the case of international shipments, required with customers of traffic companies, forwarders, public authorities (customs, for example) and other participants in the transport chain. From the aspect of quality, unreliability of information is worse than its absence. For this reason, in all forms of transport in developed European countries, and on the global level, people develop uniform standards of quality for products and services, as well as unique methods of communication standards in the provision of transportation services to customers.

The flow of information based on the physical exchange of documents, which includes errors, waiting time and costs may not meet the demand for fast, accurate and automatically transferred information, which can be achieved only by establishing electronic links to transfer information between different computer systems. Opportunities for additional savings in operations have begun to seek the modernization of business between companies. The solution to this problem includes the two disciplines that are now growing fastest in the world - Communications and Computing. Their integration as a solution to this problem offered Electronic Data Interchange - EDI.

Starting from the knowledge that a large number of documents with information (which are for all procedures and levels of transport chain identical) slows down the transport processes, many national and international commissions and organizations have taken measures in terms of standardization of documents and information transport chain. However, the applications of computer systems, developed for the needs of transportation companies, often conflicting international level and do not include all the features of reports on sent goods. Paper documentation on consignments of cargo, and is complemented by IT applications of various systems (production, billing, reports, statistics, etc.), so this double process of processing paper documentation and implementation of information systems is a source of costs and errors.

In this sense, the exchange of information between commercial partners should be implemented in accordance with some rules that should be the subject of agreement of members. As the number of potential participants is great, the rules must be solved on the basis of norms. One of the main tasks of international organizations (ISO, UN ECE), and professional organizations (UIC, IATA) is establishing and put into force the rules in this area.

## 2. ELECTRONIC DATA EXCHANGE

Electronic data exchange is defined as "the movement of business data electronically between or within companies in a structured, computer changeable data format, which allows data to be transferred, without re-entry, with a business application that is supported by computer in one location in a business application supported in another location" (1, pg. 45).

From the given definitions it can be concluded that the structure and standardized data format are of fundamental importance for understanding the electronic data exchange.

The term data structure refers to the recognition of the content, meaning and format of data. EDI transactions are composed of codes, numbers and short pieces of text (if necessary), and each element of the EDI document has a strictly defined purpose. Also, EDI transactions must have a standardized format, which means that information must be so formed by the computer to be processed without human intervention. It is the general standard, agreed at a national or international level (2, pg. 79).

Communication between the computer must, therefore, strictly pre-defined with standards and protocols adopted by the national and international agencies. The standards define the content of the data themselves (look, type, size and other characteristics of data), as well as how the exchange of information - communication. Development of standards for electronic exchange of data started from their own standards which are developed by the company itself, through the standards that define the National Institute of Standards until the adoption of international standards. On the issue of standardization they engaged the United Nations, the International Chamber of Commerce, and International Organization for numbering, ANSI, ISO and other institutions. Universality and the general application of UN/EDIFACT standards in recent years in the entirely solve the dilemma about the choice of standards. Standardization provides the international level to overcome language barriers and contribute to the integration of information systems of the world market. Also, it should be emphasized that the standards for electronic exchange of data changes over time, because companies that apply them gain new experiences and propose a better variant, while international institutions publish amendments to standards.

Using EDIFACT standards helps exchanging of documents related to trade, transport, finance and accounting, customs, civil engineering, statistics, insurance, tourism, health, social policy and public service. Each document has its own code and converts it into an electronic record according to the defined syntax rules. Basics for encryption are the code lists. Code lists are listed in full in the standards with all possible cases, or rely on some of the international coding system, such as the EAN (*European Article Numbering Association*) (3, pg. 26-27).

Many countries have begun to build information systems that use the UN/EDIFACT syntax. Electronic items numbering (EAN) and EAN Communication (EANCOM messages) are based on these standards. The communication between the banks passed on the EDIFACT standards (in 1989 a project began by the S.W.I.F.T. association for transfer to EDIFACT standards) (4, pg. 182).

Standardization in the field of electronic data interchange allows communication without any restrictions and contribution to the globalization of the market. Application of UN / EDIFACT standard message formatting means uniquely independent of the application software with which to work, computer environment, and applied communication software. The message prepared in this way is known to all hardware and software platforms, and therefore it is universally applicable. Development of standards for electronic data exchange allows a number of operational business activities transferred to the electronic media, so they developed a sophisticated system of international payments, electronic order placement, exchange information, documents, and even holding meetings with remote business partners (video conference).

Introduction of electronic data exchange in enterprise information system requires company management to constantly follow up to new protocols, standards and technology. Development of electronic communications means the adoption of uniform standards and choice of adequate channels for the implementation of electronic communications. In a world most of the electronic data exchange performed by the UN/EDIFACT standards. However, business activities, particularly in developed countries, are increasingly based on new business models that rely on the latest Internet and Web technologies. Using new strategies and technologies such as XML, integration of business applications and Web services enables business operations via the Internet. According to some authors (1, pg. 44) The Internet has enabled the following three advantages inter-corporation cooperation:

- Distribution of information to all partners
- Interface for the EDI system
- High bandwidth of information between companies with no dedicated private line.

The company that wants to maintain a competitive position can not ignore the question of applying electronic data exchange. In this context, some authors (2, pg. 100) point out that electronic data exchange is a competitive opportunity for companies to quickly and efficiently accept a competitive necessity for companies that are lagging behind. The literature emphasizes the influence of the three phases of EDI technology on the competitiveness of enterprises (2, pg. 100):



- 1) First phase - EDI is the basis for the creation of competitive advantage because it is owned only by leading companies;
- 2) Second phase - EDI is a competitive necessity because the mass implementation becomes a condition of presence in the market;
- 3) The third phase - lack of EDI means the termination of operations.

It should be noted that the electronic data exchange is only one element of competitive advantage, and that its application can not be compensated for substantial weakness in market strategy, cost structure and organization of companies. Also, the factor that makes a significant contribution is the function of governance and management. It is the management process that creates a competitive advantage, thanks to the determination and implementation of specific technological solutions in business.

### **3. TRANSPORT COMPANIES AS INITIATORS AND USERS OF TECHNOLOGY FOR ELECTRONIC DATA EXCHANGE**

Application of electronic data exchange in traffic has a relatively long tradition. Transportation companies were before the introduction of UN/EDIFACT standard used by commercial EDI service provider. The first examples of successful implementation of electronic data exchange in the world are connected to the transport of air transport in the 60's and 70's of last century in the U.S. and Europe. Due to the implementation of international standards developed for the aviation industry, such systems are classified in closed systems category. Global connectivity, however, assumes as a basic principle of open systems that can be realized only by applying the public, non-private standards. With the advent of the UN/EDIFACT standards (ISO 9735) and OSI reference model of open systems there opened new possibilities for further development and improvements of computerized booking system, forcing other industries that serve air traffic to their systems based on or adjust the UN/EDIFACT standards.

In the field of marine transport the introduction of electronic data exchange in ports is a key logistics factor for the development ports. Implementation of systems for electronic data exchange is realized in many major international ports (Rotterdam, Hamburg, Singapore ...). Exchange of information in the port system is realized through communication channels between all participants in the port logistics chain system and database. Electronic data exchange is used to transfer documents to each other sent by different companies, terminals and other port authorities, including customs. Development of systems for electronic data exchange for the port is extremely complex, but worth it as you can see the example in the port of Rotterdam which was shortened waiting time for trucks by 70% (5). Network for electronic data exchange is so constructed that displays the data at the request including the tracking of containers, information about companies in the port and the details about arrival and departure of ships. It is important that the port has a sophisticated network for electronic data exchange, for example. Fast unloading is meaningless if the processing of documents accompanying the goods, which takes several days.

Due to the benefits of business improvement of the railway, the European railway companies have sixty years of discussing the exchange of data within the international transport of passengers and goods by rail. HERMES system, the European railway telecommunication network for data transmission, is one of the attempts of railway administration to give its contribution in the field of electronic data exchange. Quality of service and efficient production of railway companies impose an obligation to inform each other in advance about the transport operations and composition of the trains, and other aspects of combined transport (information on timetables, ordering, pricing, etc.). International Union of Railways (Union Internationale de Chemins de fer - UIC), perceiving the advantages and the need for more integration of information systems into a single railway system, even in 1971 the research study has begun to build an international network to transfer data from HERMES (Handling through European Railways Message Electronic System). HERMES Network was established with the original purpose to link reservation information systems of eleven European UIC member railways. Today, implementation of interactive EDI, a smart card application (ticket with microprocessor capable of registration data) and e-business initiatives are some of the HERMES environment.

The need for standardization of data and business initiated process of development of UN/EDIFACT standards for transport and shipping, and production of common vocabulary and definition of standardized codes and protocols of exchange. The field of transport has developed a set of UNSM (United Nations Standard Messages) marked IFTMFR (International Forwarding and Transport Message Framework), which is the basic syntax for the approximate performance of functional message that used in all forms of transport (rail, air, water, road, multimodal transport). IFTMFR describes in detail the structure of communication between participants in the transport chain, and refers to the multiple functions for each type of transports. This kind of integrated set of messages is necessary, gives the increasing volume inter-modal transport (6, pages 211-212).

Open standards are therefore needed to realize traffic information system to connect businesses to each other, and their connection with customers. Agreed information systems enable the establishment of consistent

management and exchange of data between parties from different user groups and industrial sectors. In the open field of transport systems have become a means of communication in the field of sales reservations and transport documents, inter-modal transport, ordering and contracting transportation of goods, etc.

### 3.1. EDIFACT AND COMPUTERIZED BOOKING SYSTEMS

Large international reservation systems, airlines and computerized reservation systems of large railway have long and successfully used systems of electronic data exchange. However, each of the participants in the market of transportation services (airlines, major railways), developed their own standards for electronic exchange of data within their computer booking systems, which were not unique.

Airlines have their own booking systems developed based on IATA (International Air Transport Association) standards, which enabled to reservation systems of companies exchange information and to receive and send messages in the same format. These systems use the so-called principle of interactive data exchange (Interactive EDI), where the message requires a response in real time. Development of interactive messages is initiated at the request of airlines and soon the message became multimodal and applicable in several sectors airline industry. More than 70 EDIFACT messages are adopted as the IATA standards and are in the further development of these messages for other purposes. Development and implementation of EDI standards for the transport of passengers and airport procedures related to passenger transport include the following areas (7):

- Reservations,
- Electronic ticket sales,
- Communication in relation airport-airline,
- Application of passenger and flight registration,
- Receiving and tracking of luggage,
- Functionality of service elements - FSE (this domain applies to registration and review of messages or requests for response),
- Cargo manipulation.

International seat reservation and ticket sales in railway passenger traffic are achieved through the HERMES system. European railway administration, members of the UIC, through the system HERMES implement the electronic reservation of seats, couchette cars, sleeping cabins and electronic issuance of travel documents directly between national reservation systems.

Basic standard applied in previous years in this area (UIC post 918) was first expanded with new messages (918E), to eventually move to the implementation of a new set of EDIFACT messages in order to avoid problems related to communication between the national distribution system and expansion opportunities (functions) that these systems provide (information on scheduled trains, the issuance and cancellation of cards, dialogue with external partners). EDIFACT standard is officially adopted in 1997 by the UIC, and since then has developed several applications based on the EDIFACT syntax for international passenger traffic. International cooperation of railway administration in the area of passenger was achieved through joint IT projects, especially with regard to the timetable, booking system and sold tickets. TITAN project was launched in order to develop interoperable and efficient system of schedule, with a focus on standards, defining and organizing the exchanged data (EDIFACT standard) between the railway administration. In the same domain, MERITS project has focused on establishing a centralized European timetable. In the area of ticket sales in 1999 the UIC has defined a set of functional (the inventory of concepts) and technical specifications for the implementation of "smart card" technology in the railway, in order to integrate these specifications with the European standard for "electronic issuance of cards" (CEN). The "Smart Card" technology system of issuing railway tickets, together with the technology of the Internet and GSM (English Global System of Mobile Communications), is designed to allow traveling without tickets (8).

### 3.2. DOCUMENTATION OF GOODS IN ELECTRONIC FORM

The world makes great efforts to replace "paper" documents and their conventional transmission in international business with an "electronic" document. Thus, in the territory of the European Union all the information sent to customs authorities must be in electronic form, which marks the end of a simple transit procedures based on generally accepted paper documentation. Reacting to market needs of transport services, and the requirements of customs authorities, airline and railway administration of European countries supported the introduction of documentation on the goods in electronic form through **IATA e-freight** projects for air transport and **e-RailFreight** for railway traffic. The aim of these projects is to establish a system that would timely provide that a document in electronic form is the only record that supports the transport of goods in international traffic.

Airline companies were first to show the initiative in introducing the electronic documentation. Development of IATA processes and standards has provided a solid basis for the simplification of business procedures in 2007 launched pilot projects in six locations around the world that already possessed the necessary business, technical

and legal environment for the execution of projects. IATA has taken a leading role in the evaluation for additional 46 sites which should realize the e-freight project. Successful implementation of e-freight project involves timely and high quality electronic data exchange. Practice says that about 60% of electronic data that exchanged between the forwarder and the airline company, are not precise, accurate or undelivered. A key initiative by IATA is to improve the accuracy and range of application of electronic data for the air waybill (e-Air Waybill) and other transport documents. E-freight project involves the integrated application of XML standards, data entry via web portals and search documents and send e-mail (9).

In the field of railway transport in the European area many projects implemented, that aim to increase the use of electronic data transfer. International railway organizations CIT (*International Transport Committee*), UIC and RAILDATA decided to join forces in organizing the work on the promotion of documents in electronic form for transport of goods in international railway traffic. The main action details e-RailFreight project can be summarized in the following (10):

- To give maximum advantage to electronic data exchange in order to avoid the paper documents during transport;
- To reconsider the organization of international goods transport and regulate it so that procedures based on the electronic media become mandatory, and paper document to be used only in exceptional cases;
- Expand the project outside of the transport documents and other documents accompanying the transport (for example, reduce the requirements for labeling and categorizing wagons);

According to the website of the International Railway Organization CIT (International Transport Committee) operational goal is to achieve by 2010 the transfer of 80% of shipments using a few paper documents or without paper documentation in full (11).

The effects expected from the implementation of these projects are, above all, improvement of services in terms of improving the reliability of information and exchange of security data, shortening delivery time, greater transparency (better dialogue between the participants within the system), faster procedures through the customs system and reduce overall operating costs. E-freight initiative relies on the involvement and support of all participants in the supply chain of goods, including authorities of state administration.

#### 4. CONCLUSION

In the information technology that have developed in recent decades, electronic data interchange - EDI, is a narrow segment of the overall development. Electronic data interchange is effectively applied in most commercial and public entities in the most developed regions of the world. In air transport, particularly in the commercial transport of passengers and goods, based on electronic data interchange have been developed and automated reservation systems. Also, the rail companies were forced to in many segments of business (reservation system, processing and sharing data on consignment note), under strong pressure from the regional organization of European Railways, apply the electronic exchange of data. A key reason for the application of systems for electronic exchange of data lies in the acquisition of certain economic benefits and competitive advantages in business. Quality of services offered by individual branches of transport is reflected through the integration of transport and communication infrastructure. Speed, accuracy, completeness, order processing, timeliness of delivery and their reliability are the main factors that can provide a complete service in goods and passenger traffic.

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## ADVANCEMENT OF PUBLIC COMPANIES' OPERATION PROCESS AS ECONOMIC DEVELOPMENT PRIORITY

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**Summary:** *The object of business operations of public companies are products and services considered to be necessary for settlement of individual social needs. Since it is concentrated in the fields supplying citizens with utilities and services (traffic, telecommunication and posting services, communal services) and industry with products and raw materials (electric energy, coal, oil, steel, etc.), public sector is a significant segment of any economy. State has to take on direct participation in conducting the allocation process because the production and consumption of these goods cannot be based on legalities of free competition of multitude of the producers and consumers. Accordingly, a public company, the basic objective of which is satisfying public interest, has to unite in its business operations the element of publicity on one hand and of marketability on the other hand. The influence of state on the course of business operations of public companies is perceived also in legislature of many countries. Public sector is a basis of modern relationship and establishing the linear connections of national and economical structures, and thus it has to have its goal and development directions in the future. In developed countries of the world there is a great tendency of eliminating the rigid ruling bureaucracy. Public sector reform is a process intensively being conducted in almost all countries of the world, primarily for the purpose of rationalization of state administration, forming of successful public management, introduction of market mechanisms into public activities and improvement in public resources management.*

**Key words:** *Public company / state / economic development / public sector reform.*

### 1. INTRODUCTION

Having in mind that Serbia is in the process directed towards constructing modern European state, selective withdrawal of the state from the economy, encouraging the public-private partnership and management decentralization is present. The efficient functioning of public administration and jurisprudence has an essential influence for development of market economy and democratic development. The necessity of reforming of public administration in accordance with the rules and managerial measures dominating in private sector is coming to expression, whereat the basic criteria are satisfaction of the users of services and rational spending of the budget resources. The effectiveness of public administration is measurable, and it is necessary that it becomes comparable to the private institutions effectiveness [12, pp. 138].

Our country is at "the developing crossroad implying that it is necessary to change the conception of development and the system it is realized in. Insufficient competitiveness of companies, financial sector and public sector is the measure of inefficiency of the so far conception and development strategy and of political, economic and legal system up to now" [1, pg 133].

Public companies are business-technological systems and organizational-economic units, and they are such that through them, according to the constitution and law, public interest is realized in all the activities realized as the market sustainable, technologically acceptable and public functions adjusted to market ambient.

Public company, as a concept, primarily relates to the definition of the classical company, i.e. each independent economic activity of one or several physical or legal entities having as the purpose the realization of economically acceptable public function in market economies. Our legislature predicts that business operations of public companies can be by the resources in the state, social, private and other forms of property. Public goods or public interests are the subject of their activity; the activity they are dealing with completely or partially under public regulation; to a large extent they have great initial investments, monopolistic or privileged position on the market with expressive consent and regulation of the state bodies; non-rivalry and non-exclusivity are their features; they have the status of public corporations and state companies. Infallible it is necessary to

mention that besides the term *public company*, also used term is *public services*, in case of signifying the activities of the organizations fulfilling some social needs for which to a smaller extent private companies are interested in (usually included herein are communal activities, education and health care). Public companies, according to the generally accepted classification, can be natural and state monopoly. The particularity of public companies is the size of the facilities and lower costs per unit of the product, whereas the state monopolies are public companies to which the state has given the exclusivity in some products and services.

The size, the ownership basis, competition, technological choice, investment policy and development, relation of company-state and social function of a public company, are highly important characteristics for conceptual determination of public company, because surely not any realization of public activities is a public company.

When it is about size, it is mainly about large companies in relation to their functional, organizational, managerial, communicational and technological characteristics. Further on, regarding the ownership basis, it is important to mention that the changed circumstances on the international market have lead to some kind of collision between public interest and state ownership- the state ownership suppression as the traditional basis of public companies is present and to the benefit of public or mixed ownership, to the extent of moving the public interest gravity toward the public function gravity. With regards to the competition, these companies are set under the liberalized regimes of business operations, i.e. the competitive participation on their tenders and companies from other states under equal conditions, since the public acquisitions and public functions include technological choices and strategic decisions in different fields (traffic, telecommunication and similar). In situation when some country, according to the technological choice, is looking for financial support from aside, the competitive determination with international aspect is becoming especially expressed.

Further, it is clear that by the technological features of production the organizational and managerial function of public companies is predetermined, because it is necessary that they are technologically qualified and motivated; therein a significant role is played by the fact that the life cycle of new generic technologies is significantly decreased- from about 140 years in the 19<sup>th</sup> century, to about 70 years at the beginning of 20<sup>th</sup> century, to only 6-8 years the period amounting today. Additionally, when it is about investment policy and development, it is necessary to mention that public companies cover public functions in significantly different types of activities (capitally intensive, labour intensive, biologically, developmental and natural resources), whereat the public interest is preserving the substance, the sustainability of investment programs and ensuring the rational business operations. The developmental function is mostly realized in the form of precise determination of criteria, standards, procedures and conditions. Public company- state: in modern world disputes about relationship of entrepreneurial and public function are settled, i.e. the role of the state in it, and in our country, still endangered are the public interest and the sense of public function, in most cases due to depressed prices of public services, structural deformities, disinvestment, excess consumption, etc. imposed on public companies is the social function, instead of building the policy of social peace based on them. And, the depreciated prices of most of the public companies create the illusion of their social function. It is disputable from at least three reasons: non-selective subvention, encouraging irrational consumption and serving as an excuse for appearance of Para fiscal deficits.

## 2. PUBLIC COMPANIES FORMS AND SIGNIFICANCE

Public administration, as the regulatory and executive social sub-system, participates in national competition and it is a developmental factor on national and local level. Public administration modernization primarily impacts two segments. Firstly, the administration has to act as the legitimate activity (the user's voice) and, the administration has to be efficient. It is necessary to point out the importance and significance of political support, the oscillations of which disable the consistent and even development [12, pp. 139].

The particularities characterizing public companies and public services reflect, among other things, in the subject of their activity as well, and an important element for determination of the activity of a public company is taking the stand on the contents of the activity of the public interest. By the provisions of law, it has been performed by using three basic criteria: (1) *Enumeration, i.e. the listed noting of basic activities considered to enter into the range of activities representing public interest*- the provisions note the activities representing public interest, and are performed in the field of energetics, waterworks, traffic, PTT services, communal activities, mining, forestry and information. The goal is finding out the solutions by which in the more modern and more adaptable way in market conditions of economizing the contents of the concept of used to applied standard "irreplaceable condition of life and work of citizens" would be fully expressed; (2) *A more flexible criterion in relation to the first- using and managing goods in common use and marine natural resources*; (3) *Functional determination of activities*- for the activities that are of public interest considered are those necessary for operations of state bodies and local administration, especially of the qualifiers significant to defense and security of the country (which are necessary for our country' performance of the international obligations).

Although the concept of public interest is thought to be an important element for estimation of public company

functioning, it is completely sure that it was only a presupposition for turning a company into public. However, the moment when the company starts functioning, the issue of public interest existence is no longer posed but only whether there are conditions for its operation. That is why it can be stated that public companies position differentiates from the position of other companies.

Public companies are under control of the state, thus the state determines what they will be producing, under which conditions and prices. Even though it is not often considered in such way, these companies are exposed to large competition in reality (very often the competitors operate in far better conditions whereat satisfying public interest is not their fundament in strategic determination). Public companies have a mission based on supposed general interests by providing "universal services" (provided on the whole territory under equal conditions, prices, within the framework of quality that is prescribed). Since very often the processes of nationalization and privatization coincide with alternations of governing political parties (e.g. the case in Great Britain with black metallurgy- by coming of the Labourist party- the nationalization process, and by coming of the Conservative party to the power- privatization), it is often impossible to give the answer to the question whether some product or service should be provided by public or private enterprises.

As stated at the beginning of this paper, public companies, when providing products or services of public interests have, to a large extent, great initial investments, monopolistic or privileged position on the market with expressive consent and regulation of the state bodies. However, even those companies for the existence of which there was interest and justification can be found in public sector; the presence of such companies in public sector is mainly limited, and they are treated as public companies in the period of duration of the specified interest. On the other hand, the comparative right of some countries does not contain public companies as a special form of organizing and vice-versa. Further, even the companies that could be left to market conditions, although economically capable of doing business outside the public sector, are precisely found in the public sector due to various reasons (e.g. Some company is kept in public sector so that the fiscal monopoly is not established); then the company is legally public, but not in the economic sense. The economic entities performing some economic activity are also considered public sector entities, regardless of whether the economic activity is being performed constantly or occasionally and whether it is secondary in relation to the activity of the economic entity (such as bodies corporate having specific economic facilities, i.e. which at selling of the goods or providing services set out as the participants on the market).

Thus, for public companies grouping, one should have in mind general and special characteristics, respecting the whole range of particular diversities of public companies, because in accordance with those characteristics and in accordance with the specialty of the public company, it is constituted and conceived. Milović differentiates four categories of public companies: (1) public communications or services containing the activities of irrigation system, postal-telegraphic- telephoning system, system of energy transfer (electricity and gas), waterworks system, health care system and system of providing public utility services; (2) industry including the activities such as steel production, cement, oil, coal, chemistry, etc.; (3) trade and transport including the activities of import and export, banking, railway, air and marine transport and (4) other public companies (all forms of public companies not included in the classification 1-3).

In European economy, public company has been occupying a significant position, and of 12 European countries are taken into consideration comprising the European Economic community, due to greater availability of information in 1986, the public sector employed 8,5 million of non-administrative workers that have produced the value amounting to 330 billion ECU and participated in the fixed capital of 87 ECU.

The economic arguments of justifiability of existence and importance of public companies, excluding but not underestimating the significance of political factors are the following:

- The deficiencies expressed in some cases by the market mechanism represent the most pointed out argument. Included into typical cases of expressing the non-efficiency of the system of economizing and market mechanisms are primarily the public goods. The benefit of these goods available to all consumers cannot be measured by the benefits they have for individuals nor by the amount they would be willing to pay for the goods on the market. Therefore, the offer of public goods is regulated by public interest instead of being regulated by market criteria;

The activities with significant external effects are the next typical example of non-efficiency of market mechanism; the market inefficiency in cases of externalities is expressed as the insufficient production of goods providing external benefits or the excessive production of goods bearing external expenditures. For the purpose of preventing the transfer of costs and benefits arisen by the incapability of the market to value them in the right way, the state intervenes with different measures. One of the forms of the intervention is founding of public companies.

The existence of economic branches having the monopolistic characteristics (electricity supply works, railway, gas distribution, etc) makes a special argument, and the common feature of these activities is great capital investments into infrastructure and highly expensive equipment. In order to, at relatively low level of prices, realize the sufficient amount of incomes for covering the business operations costs, some companies in these branches have to have a large number of users so that the existence of large number of these companies

which would satisfy the same type of requirements on a specific area is irrational. The other, not as significant economic and non-economic reasons are for example, national regulation of key branches enabling easier settlement of the overall economy problems, the importance of some activities is a justification to the state to take the control over them, the defense reasons, social objectives, the importance of some activities, broader social reasons, etc.)

### 3. PUBLIC COMPANIES AND STATE

Since it is concentrated in the fields supplying citizens with utilities and services (traffic, telecommunication and posting services, communal services) and industry with products and raw materials (electric energy, coal, oil, steel, etc.), public sector is a significant segment of any economy. State has to take on direct participation in conducting the allocation process because the production and consumption of these goods cannot be based on legalities of free competition of multitude of the producers and consumers. Accordingly, a public company, the basic objective of which is satisfying public interest, has to unite in its business operations the element of publicity on one hand and of marketability on the other hand. Thereat, the elements of *publicity* are reflected in the fact that (1) the most important business decisions are made by the state, as the owner of durable capital, though its agency or by administrative committee having its representatives therein, and making decisions is not related exclusively to the financial gain or social policy and in the fact that (2) the public company is responsible for its business operations to the whole society as the end protector of public interest. On the other hand, the elements of *marketability* related to (1) expectation that the public company is financially healthy and subjected to constant market check and (2) that the tariffs collected by the public company should cover the margin costs of the company.

State thus, has a significant role in the organization and operation of public companies, because they are founded and operate for the sake of permanent execution of the activities that are of public interest and accordingly, regular satisfying the needs of the population with regards to usage of basic products and services. The basic elements of explaining and determining the concept and essence of state, based indeed on the abundance of theories on legal-political nature of state are the following [4]:

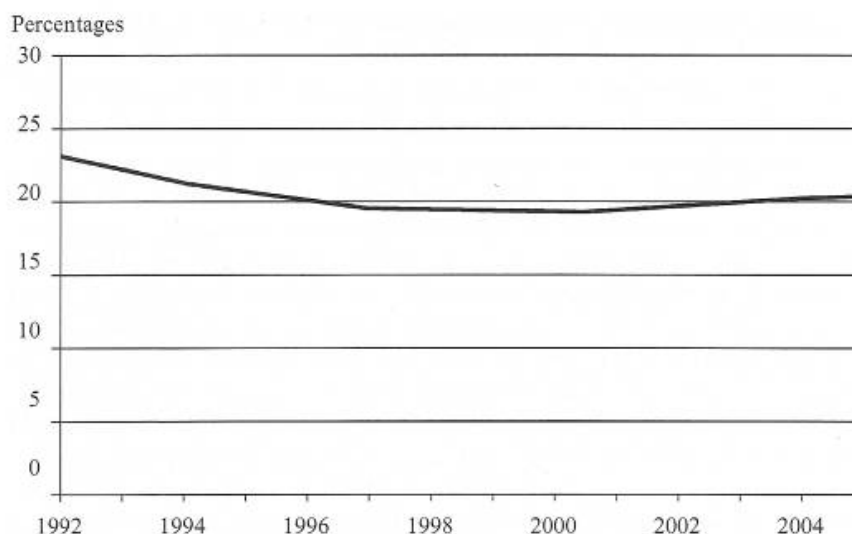
- State is a socio-historical category created on the basis of development of productive power and the corresponding productive relations.
- State is the basic and most important form of organizing of each class society.
- State is the organization of public authority, the basic function of which is class order safeguarding and the corresponding manner of production and economic domination and protection of appropriate forms of social awareness.
- State is the ruling class organization realizing its power by the state coercion apparatus, enabling it to realize and protect its economic, political and ideological function.

The EU law defines public enterprises as *public-corporate entities on which the public authority exercises direct or dominating influence on the basis of ownership, financial participation or by conducting the laws applied on their business operations independently from the legal position which they have based on the internal legislature of the EU member states*. Our legislation as well predicts great authorizations of state reflected on foundation, organization and control of works of public companies. It is actually about the authorizations reflecting on the total policy of business operations and strategy of development of public companies. Namely, the legislature of many countries predicts the influence of state on the course of business operations of public companies. Realization of public interest of both the state and its bodies and local administration bodies is provided on two levels, according to the demand for regular, continual and equal conditions available by realization of rights of citizens, as well satisfying the needs of the users in public companies. Thereat *the first level* represents arranging of certain functions by the founder in the public company, i.e. the appropriate participation in management. Related to it is also the right of the founder of public company operating in the given organizational form in mixed ownership to participate proportionally by its resources in managing the company, and *the second level* is included in managerial and expert supervision performed by the state bodies (bodies of public authority) over the public company works.

After the Second World War the influence of state on public sector increasingly grew, which has led to its enlargement. This tendency has also continued during the 70-ies of the last century, when, due to economic crisis there has come to nationalization of many branches of the economy. The result of it was creation of great multinational companies in state ownership. It further had as the consequence that in the 80-ties of the last century the problems of over-dimensioning of public sector capacities culminate, after which the wave of privatization ensued covering most of developed countries in Europe. The process of transformation of public companies into the private ones has influenced that the borderline between the public and private production changes with large intensity over time. Within the last 20 years (in Europe privatized are telephonic companies, railways, airline companies and community utilities companies) it has especially come to the expression. Yet, on

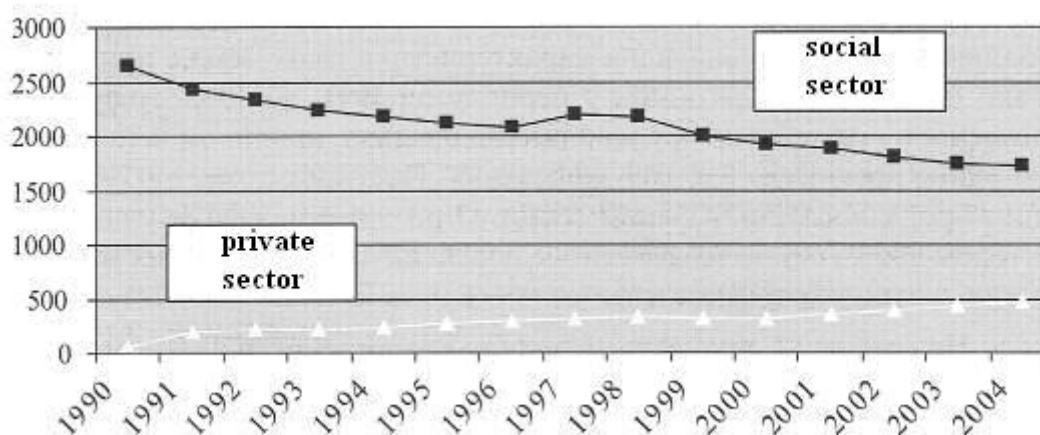
the other hand, since in the United States of America not many of the state companies existed, accordingly there has been less space for privatization, and the USA, unlike most of European countries, have for example never nationalized the industry of oil, gas, coal, steel and most of the strategic fields. Deregulated in the USA are the air and truck transport in the period from 1970 to 1990 and in the area of railway transport and telecommunications greatest freedom in decision making have been given to the regulated companies. Thereat, the consequences of the deregulation have been decrease of prices, decrease of profit but also of the expenses of monopolistic companies. Therefore, depending on the degree and dynamics of “opening” of the public sector, i.e. of political ideology of the government and the level of nationalization, being the individual characteristic of every country, the size of the public sector varies.

Great Britain can be used as the example. In the period from 1991 to 1998 in Great Britain, the employment in public sector has constantly decreased, whereupon the 816.000 employed have terminated the service. Opposite to it, from 1998 the number of employed in public sector of Britain is in the rise, and during 2005 the increase of 79.000 job posts has been recorded, and in 2006 the number of employed has increased by 24.000 [11]. Figure 1 shows the movement of employment in public sector of Great Britain in the period from 1992 to 2004 (as percentage participation in the total employment).



**Figure 1:** Employment movement in public sector of Great Britain [11]

The information of the Institute of Statistics of Serbia and Montenegro, opposite to the above mentioned example, point to decrease of the number of employed in public sector. It was to be expected if consequences of privatizations are taken into account, as well as the constant requirements directed by the international financial institutions, primarily the IMF (the International Monetary fund) with regards to decrease of public consumption. Figure 2 illustrates the employment movement (expressed in thousands) in public and private sector of former community of Serbia and Montenegro.



**Figure 2:** Employment per ownership sector in SCG [9]



Speaking about the influence the state is exerting over the organization and business operations of public companies, its economic role is unavoidable, for which often related are disagreements occupying the attention of specialists' circles even today. However, besides the existing disagreements, the generally accepted opinion is that markets and private companies are in the centre of successful economy, but that the state, as the complement to the market, still plays an important role. It is necessary to mention five major state activities providing inclusion into economic life [10]: (1) establishment of legal system that is necessary for market economy functioning, (2) goods manufacturing – defense, education, posting services, (3) influence on the private sector production by means of subventions, taxes, credits and regulation, (4) supply of goods and services by private sector by which the state then supplies the companies and households and (5) allocation of income.

Since public sector represents the basis of *modern relationship and establishing the linear connections of national and economical structures*, it has to have its goal and development directions in the future. Establishing the relationship *state bodies- public companies* should be based on public services becoming independent, creation of conditions for connecting with public sector, weakening of coercion in order to achieve the main goal in public sector development and its decentralization. In developed countries of the world there is a great tendency of eliminating the rigid ruling bureaucracy. There has also come to the change in laws that explicitly enable decentralization of public sector and fundamentally alter the role of power of center over them.

#### **4. CONCLUSIVE DELIBERATIONS- PUBLIC COMPANIES IN SERBIA; REFORMS AS THE IMPERATIVE**

It is necessary that Serbia joins in the European trend of decentralization and adjustability of management. Besides, it is necessary to join to trends of reduction of unnecessary regulation and withdrawal of the state from direct interventions in the economy, if it wishes to include into international competitiveness in the process of institutionalized reforms of governing in the EU. Searching for balance between market institutions and state interventionism represents the development trend. It requires new forms of entrepreneurship approach in managing state and transferal of its directives on other participants. Greater social responsibility of citizens, partial privatization of public services, public-private partnership and stimulating role of civil society are the basic principles for survival of social state, whereat the very economical system of European Union should perform the deregulation on the labour market, deblock development functions of state, provide greater cooperativity between public sector and market competition [12, pp. 138].

Having in mind the situation wherein the public companies are found in Serbia, it is of special significance to clarify the question of relationship between the entrepreneurial and public function, and the issue of position and role of the state in those relations. In practice, public interest is often neglected under our circumstances, and allocated to public companies is social function and "depressive" prices for the public services are determined for them. It is not consistent to market and entrepreneurship. Thus it can be concluded that two mutually opposed requests are intertwined, *the market one* demanding competitiveness, quality and profit and *the state one*, mainly imposed as limitation of the first (market constraints, limitations in production, financial and political). Concerning it is also the issue of public property that is not transferable and does not enable the influence of public companies on capital market. On the other hand, these companies do not tolerate the competitive pressure because they enjoy the protection and guarantees by the state. Also, the choice of managerial structure of public companies is specific- their structure is composed of the manager, the managerial and supervisory board. The managerial and administrative personnel of public companies are recruited from social milieu of political establishment of social community that has founded the public company, and accordingly, different political interests of the founder are present in business operations of public companies, regardless of whether they serve to public interest or not. Taking these and some other facts into account (insufficiently informed state bodies on the state and business operations of public companies and with it, inadequate control mechanisms of these companies, non-stimulating system of incentives and similar), arise out of relatively bad determinants of public companies; primarily form the aspect of accomplishment of their goal. In itself it points out the necessity of finding out special conditions and forms of economy in business operations of public companies, i.e. that the process of public companies positioning is started.

Also, perceivable is the existence of possibility that the jurisprudence and legal system, if it doesn't come to the reform, become limiting factors for legal safety and efficiency of the state. National strategy of economic development of the R. of Serbia till 2012 Predicts enhancement of the state efficacy according to the principles of adherence to international conventions; openness and transparency, liability, successfulness and efficiency, ethics and honesty. Thus the establishment of responsibilities of all institutions and in all fields is the primary goal and quality of regulation, depending mostly on jurisprudence and modernization of administration as the factor of encouraging competitiveness [12, pp. 138].

According to the Analysis of public companies operations in 2008 by the Republic Institute for Development [7], in the previous eight years of transition, Serbia has realized a significant step forward in the reforms of real and

financial sector (restructuring and privatization of social companies and financial organizations). However, in conducting the reforms of public sector (restructuring and privatization of republic and local public companies); the weakest results have been achieved. The last three years (since 2005) are characterized by more dynamic conductance of set measures and activities, having impact on decrease of the number of employed with severance pays from budgetary funds, then decrease of debts by write-off of the claims and division of companies to basic and accessory activities, and privatization of the singled out companies and in 2008 the privatization of the strategic company NIS SC.

It has been determined by the analysis that public companies only in 2005 and 2006 have operated profitably, so that *unprofitability* is one of the key problems of business operations. Namely, public companies in Serbia have, in 2008, with 15,8 % of economy loss in the zone of losers (the loss of 52,9 billion dinars is over four times larger than the profit of -11,4 bill. Din); the realized gain is 11 PC forms only 3, 8 % of the economy gain. Thereat, for 2008 the most unprofitable is EWS (46,5 % of PC loss; 7,3% of the economy loss), and the most profitable is Telekom SC (48,9% of PC gain; 1,9% of the economy gain). The cumulated loss of public companies is 371,8 billion dinars (38,0% of the total income of public companies), burdening also the operations of public companies that have run their business operations with gain (Srbijagas- 5,9% of the total income and EMS -0,04 %). Public companies in Serbia *operate in conditions of illiquidity and high indebtedness* (12,8% of the economy obligations) and are constantly exposed to credit risk. The number of employed in public companies is decreased by 1,1% (from 105.522 in 2007 to 104.349 workers; representing the economical growth of 0,9%) so that *the surplus of employees and the problem of inadequate qualification and age structure* still burdens public companies' business operation. Viewed in the period of restructuring from 2001, the number of employed is decreased by over 50.000 workers (from 154.962 in 2001 to 104.349 in 2008), i.e. the number of the employed has been decreased by more than one third, with severance pays from the budgetary funds and based on the singling out of the secondary activities. Even besides the below average growth of net earnings per employee 93,6% to 6,4% in the economy in relation to 2007), the net incomes of PC in 2008 are by 37,2% greater than the average of Serbia (40,9% in 2007).

The public sector reform requires conducting of the following measures [6]:

1. At all levels of decision-making it is necessary to conduct public companies restructuring, as the most important prerequisite for ownership transformation.
2. All participants in public services functioning have to take on the responsibility for their part of work, from the state, from local self-administration and public company.
3. Introduction of competitors is necessary.
4. Efforts should be made that by different ways of legal-ownership relations attraction of private capital is enabled, both in the country and in its surroundings.
5. The continuity, volume, quality and development of public services is necessary to be provided as the important preconditions for life and work of the citizens of a certain territory.
6. The governmental institutions responsible for managing policies in these fields are obligated to bring certain enactments that would regulate this field more closely.
7. The local authorities have to make decisions on the best, sustainable way, decide on issues from public sector in order to satisfy the citizens' needs on the long run.
8. Public companies are obligated to start the preparations for necessary forthcoming changes.
9. The investors interested in investing into the public sector should be enabled to perform certain estimations related to the profitability of the investment.
10. Broader publicity- users of the services should realize that under the changed circumstances the public sector has more and more less share in social politics and that the costing price of services has to cover real costs.

The significant downfall of employment from September 2008 to March 2009 of about 11.000 workplaces is recorded in public companies (11,75 within the sector) as seen in table 1, but the total downfall of the employment in public sector is somewhat smaller and amounts to about 4.000 workplaces because it has come to increase of the number of employees financed from the budget of about 7.000 employees [2, pp. 17-20].

The second half of 2009 in our country has been marked by the announcements by the Government including dismissals and decrease of the number of employed in public sector for about 10 percent. As announced, those measures, as the constituent part of the public sector reforms at all levels will begin in 2010 and having in mind the complexity, the dismissals will be evolving in several phases, during and after 2010. Some analysis have ascertained that even over 50 % of municipalities has the excess of employees, and the percentage of the surplus of the employees in some municipalities ranges even to 40% [8]. The precise data have not been determined on the number of employees in public administration that are the surplus, from the total number of half a million of employed. Table no. 2 shows the comparison of the number of employed in local public sector of Serbia and some local sectors of the countries of the European Union, i.e. the municipalities with similar number of population; the greater number of the employed in public sector of Serbia is clearly perceivable.

**Table 1:** The employed in public sector in Serbia, 2004-2009, source RIS, extract from: Quarterly monitoring of economical trends and policies in Serbia, no. 16, January - March 2009, FREN, Fund for development of economic science

		Employed at corporate bodies						
		Public sector					Public sector total	Other (economy) <sup>1)</sup>
		From budget			Public companies			
		Administration all levels	Education and culture	Health care and social work	Public state	Public local		
		1	2	3	4	5	6	7
in thousands								
2004	March	63	117	147	125	57	509	1.092
	September	63	116	148	124	57	508	1.052
2005	March	63	119	148	122	61	513	1.044
	September	61	117	147	112	61	498	1.038
2006	March	60	118	141	105	61	485	1.011
	September	58	117	138	102	60	475	972
2007	March	58	121	138	100	59	476	962
	September	59	120	139	100	58	476	952
2008	March	60	124	140	99	58	481	951
	September	61	122	141	100	58	482	943
2009	March	64	125	142	89	57	478	935

Note: The employed in the Ministry of Defense of Serbia as well as the employed at MUP of Serbia, although financed from the budget are not included into the total balance of the employed in the Table. Their number is estimated to about 80.000 and they contribute for additional 4 % to the total employment in Serbia. Out of the safety reasons, the RIS does not publish the exact number of employees in these national institutions nor their average pays. 1) Private, social and combined companies (without entrepreneurs). The number is obtained when from the total number of employed at the corporate bodies from the adequate table we deduct the number of employed in public companies and those that are financed from the budget.

**Table 2:** Number of employed in public sector, comparison with the EU countries [8]

State	Municipality	No. of popul.	Employed in l.p.s *	l.p.s and popul. **
Holland	Amersfurt	140.000	1.200	8,57
Serbia	Leskovac	156.252	1.805	11,55
Czech	Znojmo	34.759	292	8,40
Serbia	Čuprija	33.567	437	13,02
Italy	Imola	67.301	600	8,91
Serbia	Bor	55.817	722	12,94
Ireland	Galway	72.729	520	7,15
Serbia	Jagodina	70.894	848	11,96
Britain	Hastings	84.500	520	6,15
Serbia	Novi Pazar	85.996	883	10,27
*local public sector, **number of officers on 1.000 inhabitants				

According to the analysis of business operations of public companies in 2008 by the Republic Institute for Development, for successful execution of reforms of real sector, set as the priority is the acceleration of the process of restructuring and privatization of public companies and establishment of new economic structure in order to provide the sustainable economic growth and better capability of Serbia for stabilization and association with the EU. The more efficient execution of the process of restructuring will be achieved by solving the problems of surplus of employees, by establishment of appropriate qualification structure in primary activities of public companies; then by providing the necessary infrastructural investments and by increasing the level of technical-technological equipability of the public companies; then by liberalization of infrastructural activities by introduction of competition in the field of production and distribution of electrical energy, fixed telephony, transport of passengers and goods by railway, posting services, air traffic and oil import; as well as by continuing the corporatization of state companies through complete or partial privatization (based on individual feasibility studies)- all of the mentioned has been concluded according to the analysis of business operations of public companies.

The interest of public sector interest and of the business systems within it should be target oriented systems that are capable of anticipating events and changes brought by the future; the business systems of public sector

necessitate a planned, target managerial behaviour. As a new way of reacting to developmental problems and the most general statement of intended directions of development, the reaction as a decision must happen at a right time, as an expression of materialization of information causing positive changes.

Public sector reform is a process intensively being conducted in almost all countries of the world, primarily for the purpose of rationalization of state administration, forming of successful public management, introduction of market mechanisms into public activities and improvement in public resources management.

In narrower sense, the reform implies changes in the organization, mission, goals, functions, as well as in legal regulation, whereas the reform in broader sense relates to change of organizational culture and mentality, professionalization, application of new methods of public management, etc.

The professionalization and depolitization of public administration and its modernization in direction of creating an efficient service acting in the interest of all citizens and creating conditions for work and business operations, is one of the prerequisites for entering into family of European nations. For developed specialist and professional administration that will conduct the historical process of stabilization, democratic transformation and create new international positions in our country, the existing experiences and standards can be of help to us.

According to the National strategy of economic development of the R. Serbia, it is necessary that the public administration, as the participant of social and economic development, in the next decade approaches to further measures of modernization along with respecting European principles of public administration. It is about the following principles [12, pp. 140]:

- correctness and predictability (legal protection) grounded on legality and impartiality;
- openness and transparency (allowed exceptions are national security and security of personal information);
- responsibility; efficiency (responsible use of public resources) and
- successfulness (achieving goals of public policies, primarily adopted in the legislature).

For these mutually dependent goals, an adequate regulatory framework is necessary and such to provide the primary legal protection in order to realize other goals. The potential conflict between the efficiency and rule of law, on one, and legality, on the other hand, has to be settled by separating the role of the bearer and the role of the executor, as the function of administration. In that way the administration brings public policies and performs supervision and transfers the performance in itself on the contractual executors.

In economy organized in modern way, the institutions and rules have an essential significance, implying conducting the political and economical reforms, in order to provide growth, stability, employment, decrease of poverty and public consumption and increase of liberties. New private companies and new simulative economical ambient have the key role therein, whereas the old companies in social and state ownership should be privatized and restructured fast. The result of it would be enforced private sector (concrete and export oriented) and its increased efficiency and productivity, and liquidation of unhealthy parts of the economy. Necessary and significant is decrease of public sector (state administration and public services) as well as the consequential expenditures and local budgets and expenditures in the social security system [1, pp. 133].

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## REENGINEERING AS AN EFFECTIVE SOLUTION FOR A RE- DESIGN OF ACTIVITIES AND PROCESS IN COMPANIES

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**Summary:** *The traditional solutions for collecting information about competition are usually unilateral. Companies involved in collecting information give technological means to facilitate the process of gathering information, provide the results of independent research in addition to internal analysis or offer general consulting for managing the process. After providing a solution or report, the company is left to itself to make components. This paper deals with restructuring of companies called business process reengineering, as a concept in which companies will have to adopt new models of organizational structure and operating principles and procedures, and leave the classical ones, because they do not achieve better performance.*

**Keywords:** *reengineering, business processes, project reengineering, business process reengineering, implementation.*

### 1. INTRODUCTION

Globalization of economy, accelerated dynamics of the modern world, information society and the increasing importance of human factors had as a consequence the emergence of some new branches of science, unknown until now, which make progress owing to necessary amendments in various fields of modern science, especially in the areas of mathematics, information technology, sociology, psychology, ethics.

Companies suddenly began to realize that the traditional organizational structure, the concept of customer service and business methods, are no longer competitive in today's global market. Classical business organization based on the principles of Adam Smith - the division of industrial labor to unilateral and fundamental tasks, was set for the earlier time that is no longer valid. At the present level of development, classical business organization does not give the required performance in operations such as the amount of cost, quality, speed of service and others for potential users.

Also, they begin to realize that the old methods of cost reduction are not a way to become more competitive. What is needed is an organization that is customer oriented and market-driven in its external relations, and focuses on the processes and team-oriented in its internal operations.

One solution may be re-engineering. The reasons that determine the need for re-engineering are rapid changes, more demanding customers and severe competition. Organizational structure that appears by itself is a process and team organization. In it, there are teams (using the same people on multiple projects), organizational structures become more flexible and innovative. Any company that responds to business challenges must be changing, ready to restructure, and redesign its organization.

The most important business objectives in today's global economy are speed, quality, flexibility and low cost. However, the traditional business systems are inherently incapable of achieving these goals, because they were created in accordance with two basic principles: specialization of work processes, division of labor in many small parts and hierarchical management – placing a supervisor who monitors the people who work. These principles were relevant in the age of the industrial revolution, but today, they are extremely inappropriate, because they inevitably lead to delays, errors, rigidity and high costs. These problems cannot be overcome by minor operations and repairs. Reengineering is the only way to improvement. A new direction in modern management is known as reengineering and represents a solution to overcome difficulties and increase efficiency in the activities of the company.

At the same time, a number of researchers prefer the term business re-engineering, while others are willing to talk about this phenomenon as strictly related to business processes, i.e. they use the term business process reengineering.

Process business organization is based on business processes that create new products that bring long-term success to companies.

All the problems of business (business) in the modern world without boundaries between national markets and Alternative customer expectations are reduced to the fact that companies in the 21<sup>st</sup> century must organize their work around the process, because in this way they dramatically improve performance in business.

## 2. WHY IS GOOD BUSINESS PROCESS REENGINEERING SO IMPORTANT?

In 1931, the distinguished American economist William Edwards Deming said: "If what you do cannot be described as a process, then you do not know what you're doing!"

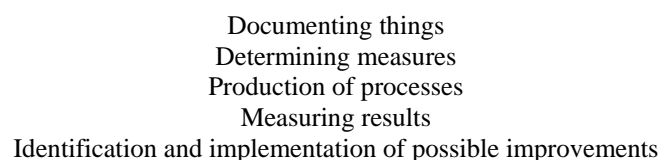
In today's information technology it is still hard to describe how a business application ends up as part of functional business services. This is almost never described as an individual process. At best, we try to articulate this through several different process methodologies, in the worst case, we do not recognize any methodology of process and we re-discover the wheel with each new development project.

When re-engineering of business processes, it is necessary to know what we are doing. It is equally important to know to record and understand what we do and how we do this. This is the essence of control balanced with good management. To achieve this, we have to provide defined monitoring, consistent and redesigned processes. The process is there to help people and has some very important attributes that are necessary for providing quality service re-engineering of business processes as shown in Table 1 below.

**Table 1:** Attributes of a process

A process helps people, removes uncertainty and unpredictability and introduces transparency and management		
Processes are: -renewable -consistent -reliable -detectable -comprehensive	Processes may be: -controlled -automated -simplified -managed -developed	Good processes are: -adaptive -sustainable - "live" -divisible -supported
Measurable performance and results of a process		

Improving business processes is the most important goal that must be attained for a company to remain competitive in the market. In the last 10 to 15 years, companies focused on improving their business objectives, because customers demanded better products and services. If you do not meet the needs of your customers, the customers are turning to other manufacturers. Many companies have started improving their processes using Continuous Improvement Model. This model seeks to understand and measure the (estimated) current processes, thus to improve them as much as possible (shown in Figure 1).



**Figure 1:** Measurement of the current process

You start by documenting the current realized tasks, determining what customers want, production processes, measuring results, and then you identify possible improvements that may be made on the basis of data obtained and collected. Then you perform the implementation of improved processes and then measure the success of new processes. This procedure is repeated again and again until you want and can improve processes, and that is why it has been named Continuous Improvement Process. There are other names such as: improving the business process model, functional process improvement model, etc.

This method for improving business processes has gradually become applicable. However, in the last 10 years several factors accelerated the need to improve business processes. The most important among them is

technology. New technologies (e.g. the Internet) are rapidly creating new opportunities in business, thus creating great competition for which it is necessary to constantly improve.

Another obvious trend is open world market and increased free trade. This change brings an increase of the numbers of companies in the market, and competition becomes stronger and stronger. On contemporary market, major changes are necessary in order to survive. It became a matter of life and death for some companies.

As a result of the search companies have found many methods for improving the process faster. What companies want are more energetic changes. Because of increased impact and changes that occur, only few companies can afford slow changes - which are very expensive. One approach to fast and rapid changes is Business Process Reengineering - BPR.

BPR was first mentioned by Frederick Taylor when he published his article *The Principles of Scientific Management* in 1900. At that time, there were no educated workers who were employed in the production process, which then were owned by wealthy people.

The creators of re-engineering of business processes need not be either consultants or academics, they are ordinary everyday people with everyday problems. In companies such as Ford, Hewlett-Packard, and Mutual Benefit Life, managers experimented with new IT opportunities for the penetration and overcoming of existing boundaries of business processes. In the period around 1980, these people did not call business reorganization business process reengineering; the name appeared later, in 1990.

In the United States and later in Europe, re-engineering of business processes became a term as a replacement for downsizing, i.e. the basis of the project plan. Thus re-engineering of business processes became a widely accepted winning combination in the leading circles of corporations, particularly in the manufacturing industry in the period of business crisis from 1990 until today. At the famous Boston Forum, as the most important traits and characteristics of re-engineering business processes, M. Hammer admits that the business process reengineering has become highly a contagious term due to its purity and its connection with the action in the literal sense, which in fact is reengineering. Nobody wants to be reorganized and feel like a "prisoner of war" [2].

As an important point, Davenport notes that, re-engineering of business processes becomes a kind of destructive management, unlike the Total Quality Management, which is more oriented towards people, who also influence the improvement process.

But in any case, business process reengineering is not a wrong discipline. Processes represent a way people work. All those companies which ignore the business processes or fail to improve themselves create a great risk of failure in the future. But there are several different ways to improve the process. Re-engineering of business processes must take into consideration not only reduction of costs and salaries, but must improve the ideas on which the future of employees in companies depends, and their creativity depends on the health of the company. Business process reengineering should not be done by those people who may be upset by a loss of job as one of the common traits of reorganization, but all must be directed to turn the company into a newer and better organization. Thus the most important requirement of business revitalization process is rejuvenation of employees, their behavior and direction of positive behavior toward the future.

Today, a valid definition by Deloitte&Touche goes as following: *re-engineering is a multidisciplinary approach in managing fundamental changes in the way of performing tasks throughout the company, for dramatic performance improvements and values of importance to stakeholders* [7].

Reengineering is considered a multidisciplinary approach, because it uses all possible knowledge for its successful implementation. Fundamental change means radical, not incremental changes. Reengineering affects the whole company and is not limited by functional boundaries. Dramatic improvement is a goal, because this is not about marginal goals. The key argument is that it brings the creation of values significant for consumers. This points to the integrated solution using a multidisciplinary approach, the statutory change of attitude of management to successfully introduce new solutions into practice, to obtain significant results on the focusing process and the strategic focus.

Gartner Group suggests the following definition of re-engineering: Fundamental analysis and radical re-projecting of business processes and management systems, job definitions, organizational structures and beliefs and behavior of employees in order to achieve dramatic improvements in performance.

Activity under which a company reviews the objectives and ways to achieve them, respecting disciplinary approaches to redesign business processes [8].

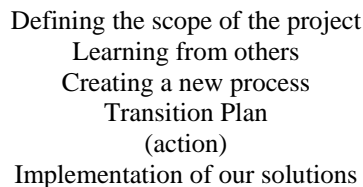
Apart from the above definition of re-engineering, now there is a multitude of others depending on how wide individual authors encompass extensive re-engineering.

## **2.1. Common goals of reengineering projects**

Reengineering relies on a different school of thought that continues the previous processes of improvement. In extreme situations, reengineering means that the current processes are irrelevant. One should start from scratch.

You project your behavior and ask: "What should processes look like?, What do my customers want?, What do employees want to do?, How do all of the companies that are best in their areas do that?, What can we do with new technologies"?

Such an approach is shown in the picture below. It begins by defining the scope and goals of re-engineering, then one learns what processes need to occur (from the customers, employees, competitors and non-competitors, with the advent of new technology). With the advent of new knowledge, we are able to create a vision for the future and to design new business processes. Then we can create a plan of action (transition) based on the gap between the current process, technology, structure and wishes, where we want to be in the future. Then comes the implementation of our solutions (shown in Figure 2).



**Figure 2:** Continuous process of process improvement

The extreme differences between continuous process improvement and business process reengineering appeared at the start (with today's processes, and significantly with the scale changes achieved).

Over time, the products of breakthrough improvement and continuous improvement came up to the surface and thus were able to overcome the difficulties of implementation in corporations. It is hard to find a unique approach that exactly matches a company and its needs, and a challenge is to know which method to use and when, and how to apply it successfully.

A reengineering project should essentially have goal-oriented executive operations focused on meeting customer requirements. A reengineering project should be complementary and serve to support business processes within the company. A reengineering team consists of designers, experts on the implementation and the people who are well acquainted with technology. It should be multi-functional and should include members from all potentially affected organizations.

The following tasks can be part of every functional approach to management re-engineering project:

**-Step 1** - Define functional objectives, and specify the following functional management strategy for the simplification and standardization of processes and systems for determining the basis of process data and information which will begin the process of improvement. By defining these bases, objectives and strategies, one sets a framework.

**-Step 2** - Analyze business processes to eliminate irrelevant processes, simplify the processes of limited value and review all the processes to identify effective and efficient alternative to the process, and system data base.

**-Step 3** - Assess alternatives to the basic processes through preliminary, functional economic analysis to find a desirable mode of action.

**-Step 4** - Envision the implementation of a desirable mode of action through the development of detailed statement of requirements, consequences, costs, benefits and schedule.

**-Step 5** - Approve. From the planning data extract information required for the finalization of the functional economic analysis used by the directors to approve the continuation of the proposed process improvements and changes in the system and related data.

**-Step 6** - Make approved changes to data and processes and provide functional verification of changes in the system information.

### 3. ENSURING THE SUCCESS OF REENGINEERING

The success of re-engineering of business processes can be measured using real project objectives achieved. The companies which have done business reengineering speak of drastic improvement and changes of business processes.

A study of business re-engineering in 30 Mexican companies that were chosen from the 500 largest Mexican speaks about amazing results. (Table 2). Business re-engineering had a major impact on the reduction of management costs (82%), production costs (57%) and distribution costs (39%) [5].



**Table 2:** Achievement of 30 business re-engineering ventures in Mexico

<b>Areas of achieved success</b>	<b>Improvement in%</b>
• Reduction of costs	69
• Time optimization	62
• Improved productivity of service	59
• Increase productivity	59
• More precise information for decision-making	52
• Improving the quality	45
• Better financial control	41
• Higher profitability	38
• Reduction of hierarchical levels	38
• Modernization of technology	34
• Personal motivation	34
• Increase in sales	28
• Market survival	28
• Reduction of business loss	21
• Contact with the environment	17
• Increase in market penetration	14

Much research has been done to determine why many reengineering projects fail or fail to change things. Department of Defense indicates that organizations with successful re-engineering have planned a number of common elements. They have strong support from the director general, they are of small or medium size, mostly willing to tolerate the changes and submit the uncertainty to which changes can lead, and many have systems, processes or strategy worth hiding from competitors.

What follows are six critical success factors to ensure that initiatives of reconstruction achieve the desired results which are listed in the publication of Sharon L. Codle.

Besides the lack of leaders at the highest level, some of the problems which bothered the attempts to re-engineering projects were related to the lack of information about the measurement of performance, lack of records of expenditures, and insufficient monitoring of the process. Here are some other factors that may jeopardize the success of reconstruction, which were specified by Hammer and Champy:

- Try to improve a process rather than change it.
- Do not focus on business processes.
- Ignore everything except process redesign.
- Neglect human values and beliefs.
- Being ready to meet small results.
- Place the previous problems in problem definition into reengineering attempts.
- Allow existing, corporate cultures and management attitudes to prevent the start of changes.
- Try re-engineering from bottom to top.
- Determine someone who does not understand reengineering to lead the attempt.
- Save on the resources that are dedicated to reconstruction.
- Protect reengineering somewhere in the corporate agenda.
- Waste energy on many reengineering projects.
- Not distinguishing reengineering from other business improvement programs.
- Focus only on the design.
- Try re-engineering without bad consequences to anyone.
- Pull out when people start to oppose changes that reengineering brings.
- Prolonging an attempt.

**Table 3: Six critical success factors**

<b>1</b>	<b>Understand reengineering</b>	-Understand the basics of business processes. -Understand reengineering. -Contrast and integrate approaches to process improvement.
<b>2</b>	<b>Build a business case</b>	-Have the necessary and sufficient reasons for reengineering. -Have organizational commitment and capacity for initiation and maintenance of re-engineering. -Provide and maintain political support for re-engineering projects.
<b>3</b>	<b>Adopt approach to process management</b>	-Understand the organizational mandate and mission target - strategic directions and goals that go to the specific goals related to process and decision making in the organization. -Define, model and give priority to business processes that are important to the success of the mission. -Adapt organizational structure to better support process management initiatives. -Make program evaluation to assess management processes.
<b>4</b>	<b>Always measure and monitor performance</b>	-To achieve that organization understands the value and method of measurement -Connect achievement management with the current and future expectations of customers and suppliers
<b>5</b>	<b>Practice management changes and provide central support</b>	-Develop a strategy of human resource management to support reengineering. -Build management strategies for informational resources and technological framework to support change processes. -Create a central support group to help integration of reengineering efforts and other improvement efforts within the organization -Create a comprehensive program of internal and external communication and education specifically related to the project.
<b>6</b>	<b>Manage reengineering projects in order to get results</b>	-have clear criteria for selecting the area where you need to make reengineering. -Set the project on a real level with defined goals and purpose of the team for reengineering. -Use well-trained, diverse team of experts to ensure optimal performance of the project. -Follow a structured, disciplined approach to reengineering.

#### 4. CONCLUSION

The necessity of re-engineering is conditioned by fast pace of life in the modern world, endless and mandatory modifications in the external and internal environment.

As a main conclusion, not related to the ideas presented in this paper, I argue that reengineering is an effective solution for re-designing processes and activities of a company. This solution is accepted not only by prosperous companies, but all companies that want to maintain competitiveness. After implementation, the company becomes the subject of permanent transformation. There are differences between re-engineering and improvement. The level of changes must be radical so that changes could be improved. Reengineering is implemented once, and we expect improvements in continuity. Time required for changes is long, the improvement is short. Reengineering is planned from the top down, and implemented from the bottom up, so the improvements are directed from the bottom up. Reengineering involves a large scope, so the improvements are felt only in the level of functioning parts. The risk of re-engineering is large, while with improvement it is focused. Reengineering is based on information and technology, and improvements are implemented by strategic management.

Research conducted by the authors indicates that reengineering as an original way of management that requires new intellectual and financial resources, and which imposes the use of information technology in order to create a new organizational structure and implementation of modern methods of administration.

The promise and possibilities of re-engineering are exciting and monumental, as noted in the early records of it. But to remain vital, reengineering business processes must be reconsidered and observed how the implementation process often swerves from its way. The power of this approach can be achieved only when companies engage in a process with courage and readiness to move into the unknown. The involvement of experienced consultants can facilitate this venture, but this does not remove the risk, uncertainty or struggle through which the company must go in order to be consciously and radically changed.

Reengineering can lead to significant changes in demand for products and services, a significant change in control or limitations imposed upon the business process, or to significant changes in the technology platform

that supports business process. The implementation of reengineering initiatives usually has a significant impact on the organization, both on suppliers and customers (buyers).

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## LEADERS IN MODERN ENVIRONMENT

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**Summary:** Leadership is an important subject for managers in modern environment, because of the critical role leaders have in group and organizational efficiency. Leadership can be defined as a process of influencing and directing activities of group members on an assignment. Motivational skills are a crucial component of leadership, while planning and administration are center of management planning. Studies have shown that functions of performing assignments and group maintenance should be done by one or more group members. Studying of leadership styles has shown that there is a style in which a manager is oriented on the assignment, authoritarian style, style that initiates structure, on one side, and style which is oriented to workers, democratic or participatory style, on the other side. Continental approach to leadership is trying to find out which situational condition is the most important and to foresee which leadership style will be most efficient in given situation. Relations between leaders and group members, assignment structure and power that a leader has because of his rank are most important situational variables: this model anticipates which leader type (with high or low LPC rating) will be most efficient in 8 possible combinations of these variables. Researchers, who were investigating leadership functions, have reached the conclusion that for successful group performance is needed someone who is capable to execute two important functions: function of solving problems and function of group maintenance, or social function. Social functions are those functions which are used to solve conflicts and as well those functions which assure that each individual person feels that it has respect from a group. Studies have shown that most successful groups had some form of collective leadership; one person (usually manager or formal leader) has been performing function of solving problems, while another person has been performing social function [17].

**Key words:** Leaders, modern ambience, modern firms, leaders' behavior, leaders' characteristics.

### 1. INTRODUCTION

Business uncertainty of modern firms is under influence of dynamic and complex environment which leads to new business directions. Firms in modern environment must transform into firms with leadership and materialize differential advantage on global market.

Human resources are main carriers of any change, and that is a fact. A modern firm devotes more and more time in developing leaders – people who are capable of creating a vision and strategy and then transfer that to others. Without enough productive leaders, creating a vision and enabling people to accept necessity of changes, there is no firm transformation. Leadership development is a long process that carries a certain risk. That risk is a necessity, in order to have favorable outcomes.

Organizations are greeting in different ways changes that we are witnessing at the beginning of a new millennium as a fascinating symbol of “a new era”. Some of them will face new millennium strongly relying on the past. Others will face it with doubts and fear. Some will face it with confidence, with a lot of plans and objectives that will not be adequate in new era. Ones that are prone to risk will approach it without thinking, relying on luck and fate... Most efficient leaders are relying on several different forms of authority to influence on workers behavior and performance. [16].

Every era had a type of leader, appropriate to conditions and ambience. Past few decades, after World War 2, belonged to “old-fashioned” leaders, that were running companies in time of extreme industrialization, with large bureaucracy and pronounced hierarchy. In that environment, people in charge were able to impose their visions to others, with strong will and authority and emphasized commanding style with strong control, visions that employees were carrying out, without question.

A lot of companies are, even today, organized on “pyramid“ principle with precisely established hierarchy. On the top there is a president or a general manager, and on the bottom there are employees, people who produce, or sell products or service. In such, “classical“ authoritarian pyramid, people work and answer for their work to a person that is on higher hierarchy level. Buyers, consumers, users are in background. New era and new environment are dictating new type of a leader. Famous American consultant Ken Blanchard (author of The One Minute Manager), offered brand new philosophy of leadership and management that was widely accepted by authentic leaders, with enthusiasm. Blanchard developed a concept of “reverse pyramid“, that has on the bottom a leader and directly above his top management. On the top of this kind of pyramid are executers, people who are in contact with customers. Essentially, on the top of pyramid are buyers and consumers.

## **2. WHO ARE LEADERS?**

The raising question is why certain managers succeed, and some other do not, or why some qualified managers do not have expected outcomes in new ambience? Experts believe that the answer is not in managers' intellectual ability or knowledge, but in his leadership qualities. Leadership style is vivid and constant and represents a mix of directive and paternal guidance, with emphasized aspect of knowledge [18]. Leadership is a distinctive way of managing in which the role of a manager is quite emphasized, communication intensive, people highly motivated and leader highly accepted. "Guru" of modern management, professor Peter Drucker, according to his own words, during his professional career met a lot of successful leaders: "All of them were different. Some of them never went out of their offices, while others were often out. Some of them were extremely pleasant (although not many), while others were rigid and arduous. Some were quick and impulsive, while others needed a lot of time and thinking to make a decision. Some were quick to start talking about their families, while others refused to talk about anything else except the job. Some were great listeners, but there were some of them that solely followed their instincts. All that confirms that there is no authentic leadership style. However, all of them had one common characteristic – all of them had a little or none of “charisma“. They were not “born“ leaders, they became leaders thanks to successful and methodical work. They motivated and orientated followers in certain direction by explaining assignments and job necessities [16].

However, all of them knew 4 simple things:

1. Leader can only be that person that has followers. All of them were very aware of importance of correlations with their followers and dedicated great significance to it.
2. Successful leaders are not those who people admire and love. Successful are those ones that made followers do the right things.
3. Leadership is not about popularity, it is about outcome. Leaders every step is closely monitored. There for they have to set an example.
4. Leadership is not about rank, title, privilege, or money. Leadership is, above all, about responsibility.

## **3. LEADER BEHAVIOR**

Regardless of difference in characters, managing styles, skills and interests, all of them acted similarly:

1. They haven't started with a question: „What do I want?“, but with a question: „What needs to be done?“
2. Next question is: „What is the important thing that I need to do?“, which will, in a best way, represent their strength and efficiency.
3. They often question themselves: "What are the mission, vision and goals of the organization? What is the thing that makes organization efficient?"
4. They highly regarded people varieties and never had around themselves people that were similar to them. They almost never thought about persons in a way of liking or disliking, but they were completely strict and intolerant when someone raises a question of work quality, standards or precision.
5. They were not afraid of qualities or strength of their colleagues – they even glorified it. Great example is Dale Carnegie, who wanted an epitaph: "Here lies a man who, in his line of work, gathered people better than himself."
6. They were trying to have clean conscience every time they look in the mirror. That was the way they fought the biggest temptation – that instead of doing right, they do popular things, or to take actions that were improper or malicious.
7. Ultimately, these successful leaders weren't “preachers“. They were prepared for action and, above all, they were good workers.

What are characteristics of a true leader? It can be divided in 3 different groups:

1. Crucial personal characteristics (high education and professionalism, ability to supervise, intelligence, self esteem, determination)

2. Important characteristics are: prone to risk, initiative, human care, maturity.
3. Preferable characteristics are less important for a manager [18].

#### 4. CHARACTERISTICS OF A LEADER

Leaders are separated from non-leaders by:

- **Energy and persistence**

Successful leaders are, usually, extremely agile, active, constantly in movement and usually workaholics. Nolan Bushnell, founder of the company Atari, said: "Most important thing is to get up from a chair and do something. Not tomorrow, not next week, but today!"

Successful leaders rather search for a problem, even before a problem reaches the surface. Their energy is enabling them to be persistent in times when others are half hearted and they always stick to their beliefs in times when others are ready to change theirs.

- **Knowledge and competency**

Studies showed that a great deal of leaders have great and wide knowledge, and are also always in pursuit of new crafts and information. They read, listen and observe.

Their competency attracts people and there for people are ready to be under their command. Accepting and cherishing custom of constant learning became main difference between old and new generation of leaders.

- **Intelligence**

Leadership and intelligence are highly connected. High education is one index of intelligence, but not the only one. Intelligent leader easily accepts and deals with all pieces of information. Intelligence is also connected with laconic expression. There is a saying: "Good manager is one that knows how to easily explain anything to a person that has difficulties to understand, and also easily understands a person who has difficulties with explaining."

- **Good judgment**

Common sense is also one index of intelligence, because employees always doubt: "What is the purpose? Is this rational? Can we rely on this?" There are many highly educated managers who don't have common sense. Successful leaders rely on their common sense and often on their instincts (management by guts).

- **Personal integrity**

Leaders attract other people with strong personality, but is utterly important that they retain that trust with their behavior. Also, it is important that all used means in realization of high goals and visions are according with personal integrity. Leadership is character, indeed!

- **Self esteem**

In fear of failure and its consequences, a lot of people are not prone to risk. Leaders, on the other hand, know how to take charge in complicated situations. Leaders self esteem is based on solid believes, clear vision and past achievements. There for, ambitious managers should start with realization moderate and short term goals, while in the meantime their aspirations will rise. J.C. Agnew, American manufacturer, said: "In the beginning I only think about how to succeed, and not about what will I do if I don't succeed."

- **Creativity and inspiration**

Endeavour to be "one step ahead" is very important characteristic of a leader. Determination to be independent and readiness to originate an initiative, abruptly to change course in times when other companies are taking a "safe route", got strategic advantages to some companies. Best ideas don't need always to originate from leaders. Leaders are always backing up creativity, sincerity and exchanging ideas in their ambience.

- **Objectivity**

Appreciation of facts is one of most important components of a leader. Max De Pree, one of known American corporate leaders said it himself: "First goal of leader is to determine reality". Successful leaders are called, for a reason, pragmatic dreamers, or practical idealists. Next important component is stability. Only a small number of employees respect managers who are liable to mood changes!

- **Communication**

Leaders have exceptional communicational skills. They are able to find common ground with a lot of different types of people, to lower tension in communication with difficult persons and, also, to find common elements for compromise. Above all, leaders think of other people feelings.

- **Enthusiasm and optimism**

- Studies have shown that employees often their leaders associate with these characteristics. Enthusiasm and optimism are obvious sign of self esteem.

## 5. CONCLUSION

"Cause of failure in lot of organizations is too much management and to little leadership." There are organizations that, with certainty will succeed in new era and will be able to shape future. In charge, in these organizations, **are leaders – people with their head in clouds and feet on the ground**, who are promoting and developing entirely new concept of thinking and acting. Successful leaders will have to be extremely skilled in making decisions, to plan effectively and efficiently, will have to be able to organize, manage and control. Leadership, as a phenomenon became crucial factor in every successful organization. New generation of leaders is facing a challenge in form of creation and functionality of organizations that are animating every person to develop their potential and also to feel as important, useful and substantial part of organization. Above all, a vision is needed and leader is initiating that vision. All employees will accept that vision and then they will, with full devotion, approach to fulfillment of that vision. A lot of major world companies created name, position and fortune thanks to successful functioning of a concept – leader is the head and organization is the body.

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## NEW CHALLENGES OF THE PUBLIC SECTOR IN MODERN CONDITIONS

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***Summary:** The necessity of the reforms of the public sector has been present for a long time in developed part of the world. In our country, finally, people realized that without radical cuts there is no way out of actual crises. As the biggest faults of the public sector, these were identified: centralized system of supply of population with public goods, lack of efficiency of governmental structures and lack of transparency. That is why, the styles and concepts of managing of private sector are recommended, but with great care, because of specific principal-agent problems in public sector.*

***Key words:** public sector, reforms, management, urges, responsibility*

### 1. INTRODUCTION

Last two decades were a period of intensive activities in direction of reform of public sector of the most developed countries of the world, which is a consequence of constant demands for improvement of performances and reaching higher level of transparency and responsibility. The necessity of important changes in the way public entities were changed, there were few reasons: participation of public sector in social product that reached huge level, in their functioning there were important inefficiencies, while responsibility for measures did not reach satisfactory level. One of its main faults is centralized way public services and goods are given, by which the complete population is in a uniform way supplied with public goods, in a way that main initiatives are directed by center, of top of public government, without identification of different needs and preferences of certain public groups, which results that lack of possibilities of choice and inefficient production.

The aim of reforms is affirmation of higher responsibility of public sector for efficient and effective usage of public resources. It was found long time ago that none market mechanism functions according with ideal assumptions of perfect competition. These measures contributed to development of so called, new public management, or, new way the public sector is managed, which is characterized by adoption of styles and concepts of managing of private sector and application of explicit standards and measures of performances.

### 2. BASIC DIRECTIONS OF REFORMS OF PUBLIC SECTOR

As main lacks in functioning of public sector, these are stated:

- *Lack of choice:* preferences of individuals in a country are different in intensity of need for a certain product or service – there are different needs for education, health care, social programs etc.
- *Inefficiency of production:* employees in public sector do not have important motivation to increase the quality of public services, since users of these services are not treated as 'consumers' like in private sector, where satisfaction of users is a key for survival of the producers. Also, the employees in public sector are not motivated to decrease expenses, since there are soft budget restrictions.

Started reforms should be basis in public sector for introduction of elements of choice, urge and competition. The reform of public sector should go in these three directions: transfer from hierarchy on economically based structures, from regulative to economically based processes and from legally stated and obligatory on economically based values.



Those who are opposed to reform, emphasize that too high expenses of existing system of provision of public goods can be tolerated, because they are less than income that public sector makes in sense of equality and justice that is provided during the process of giving public services. However, it is evident that providing public services does not satisfy standards of justice, since only those who are most skillful to manipulate get the resources. That is why these changes of the public sector should provide increase of efficiency without decrease of justice and equality.

Reform of the public sector of the most developed countries is focused on transfer of centrally regulated on performance-oriented public systems. In different countries different approaches are applied to meet modern challenges of state government, specially in preservice of balance between responsibility and growing flexibility.

Certain countries in order to increase the level of responsibility and rational usage of public resources, take different forms of performance management and new things like budget technics. These moves do not stay unnoticed and result by attention and comments of world public, other countries and international organizations, which contributes to continual improvement of these measures and doing pressure to others to check their positions in identification of necessary activities to get in developed world. Anyway, imperfection of market leads to inefficient production and spending, so public sector must be included to decrease these lacks or stop occurrence of global inequality on domestic market.

In total spector of possible and probable activities, public sector has three main tasks in market business system:

- Increase efficiency
- Propagate equality and
- Urge macro-economical stability and growth [13].

Research of the Association of Commonwealth for public administration and management shows that despite differences between countries of Commonwealth, there still is a unique model that is in relation to 'new public administration' and which:

- Emphasizes the role of public managers in providing high quality services, that citizens value;
- Propagates strenghtening of managing autonomy, specially through decreased control by central agencies;
- Estimates and rewards organizational and individual performances;
- Recognizes the importance of human and technological resources that management needs to reach goals;
- Is open for competition and discussion about the fact which public services should be provided by public and which private sector or non-governmental organizations.

Modern organizations give central place to knowledge as a basic thing because it moves all other resources. Knowledge has to be managed as much as possible. Knowledge is a factor of effective and efficient functioning of all organizations and human civilization in whole [11].

This kind of turnover is necessary is the aim of managing with public sector is its capability to follow and adjust to new changes which are related on functioning of business systems, geographic and political changes, innovations in system of education, and most importantly – on dynamic global surrounding which is becoming key thing of development of all national businesses. Business sector is under harsh competition on world market, so its performances depend of the level of efficiency and focusing of needs of consumers.

However, comparative advantages of private companies do not completely depend on their strategic choices, but of the measures that their governments are taking to help them. Positive results of private sector help the state to decrease the pressure on the budget, and satisfaction of basic needs of the citizens of that country. Practically, everyone has benefit from the efficient government, and most of all users of public services and goods, because they can rely on its efficiency and capacities for decision making.

In most modern countries it is clear that centrally regulated system of providing of public services is an obstacle for their efficient delivery in global-competitive conditions. That is why many theoreticals show the necessity to apply alternative approach, that is based on quality of performances, of institutions and individuals and that can be characterized as performance-oriented management of public systems. Basic qualities of such a system are: precision of roles and aims; responsible management; urges for improving performances; budget and managing systems that support performances; responsibility and transparency; capacity of staff and new system of values compatible with the aims of organization. List of these characteristics can be used as starting point for reform of public sector in order to improve its productivity.

The main aim of public sector is to optimize public value, which is a different concept from private sector, where main aim is to optimize market value of the company. The decisions of public workers influence on lives of 'ordinary people'. When reaching decisions, they must see demands of their public, because public sector has a responsibility to be successful. [3].

### **3. SPECIFIC PRINCIPAL-AGENT PROBLEMS IN PUBLIC SECTOR**

Vertical organizational dimension of the system of production of public goods is basic source of principal-agent problems. In modern democratic countries, decision making is of collective importance, such as a decision about production of certain amount of public goods. It is done by politics, so citizens, who are users of these goods, choose a certain number of their representatives in government, and they in the name of citizens directly participate in the work of governmental bodies and in the process of decision making about public politics and laws. State government formed in that way stands between consumers and producers of public goods, so it is clear that problems can first occur between consumers and their chosen representatives, and also between government and producers of public goods. Every organization is a net principal-agent relationships. Structure or responsibility defines rules of the game, chain of command and control and formal authorities that manage every individual member of this structure. In this net of dependant relationships there are problems of informational asymmetry and following of activities, so key questions that have to be solved during project of organizational structure are to motivate agents to act according to aims of organization and coordinate activities of numerous participants. In standard principal-agent model there is only one principal to whom all agents are responsible. For example, in private company to owners. However, organizations in public sector are different in three basis: presence of greater number of principals, obligation to make higher number of different goals and difficulties to measure performances of the organization.

First of all stated specific characteristics of public sector means that governmental officials are responsible for their activities to users of public goods and services, to those who pay for those goods and services, politicians on different levels of government, as well as professional organizations. By its nature, public goods produce direct external effects in production and spending, so society as a whole can be treated as one of principals.

Problem of multiple principals brings the problem of multiple tasks for employees in public sector, that is, the fact that public officials have to fulfill many of different goals. They are expected to fulfill high efficiency, but also equality in providing public goods. It can be concluded that it is hard to create adequate structure of urges when employees have more goals. If the salary of employees is connected to fulfillment of those tasks whose level of fulfillment can be easily measured, they will focus their efforts on that side, neglecting those activities which are important but not measurable, which can result with loss of efficiency.

So, we here come to the third specific problem in public sector, which relates to difficulties in measurement of its performances. As services that public sector provides are complex and multi-dimensional, the aims of public organizations are not precise. Also, because of the problems of multiple principals and tasks, the aims of public organizations can be in conflict, so it is harder to evaluate the possibilities of complex performances of the public sector, that is make them harder to measure.

All in all, the presence of these three problems shows that structure of urges in public sector must be different than in private sector, where individuals mostly have not only less aims, but they are precised.

Application of monetary urges does not have to be necessary if employees in public sector are more motivated by other benefits and business goods.

For the companies who give service to clients, it is important to have a strategy that deals with that concept from the beginning to the end. What kind of strategy does it imply? It implies giving client what he wants, effective communication with him and providing training of employees about service providing [15].

At the end, we should not forget the fact that motivation of the producers, and consumers, users of public goods and services, has changed in a sense that they are all lead by their own interests and urges and they want to fulfill them no matter what their positions are.

So, state officials are no longer benevolent participants in public sector. Complexity of problems is also in functioning of collective decision making, which can not transfer the will of citizens in perfect way, that is, preferences of individuals in final decisions that concern production of public goods, taxes and other questions less important for population.

In other words, consequences of collective decisions are on those who do not directly participate in decision making process.

### **4. NEW PUBLIC MANAGEMENT AS A FRAME FOR INCREASE OF RESPONSIBILITY IN PUBLIC SECTOR**

Excessive growth of public sector from the aspect of its participation in national income, on one side, and on the other the growth of inefficiency of its functioning and low level of responsibility for fulfillment of obligations were the main reasons for taking measures in direction of transformation of public sector. The attempts to decrease the rate of growth of public sector and to motivate the employees to make higher efficiency, had roots in practice and techniques of management which are used in private sector.

Work in public sector is management and not administration. In advance the success and way of control are determined. New ways of competition are introduced in public sector and work in it is close to methods of private sector. In short, in public sector we have 'market as much as we can and state as much as we must have' [10, pp. 21].

Joint direction of all applied reforms contributed to affirmation of so called, *New Public Management*, or new way of managing of public sector, which is characterized by adoption of concepts and styles of management of private sector and application of explicit standards and measurements of performances.

As OECD concluded, new platform for management of public sector, unlike hierarchy structures of managing, is characterized by this:

- It emphasizes the importance of fulfilled results, from the aspect of efficiency, effectiveness, quality of services and if users really fulfill increase of welfare;
- There is decentralization of management, by which authority and responsibility are connected. In that way decisions about allocation of resources and providing of services are reached in a way which takes into consideration the needs of users and enables gathering of feedback from users and other interested groups;
- Higher concentration on user and providing possibilities of choice, through competitive surrounding in public sector and between public sector and non-governmental competition;
- Flexibility in sense of research of other alternatives except direct public production or regulative, including usage of instruments of market type, such as payments from users, and sale of property rights;
- Taking responsibility for results and change in relation to risk.

Nowadays managers are faced with surrounding where there are changes. As result, many previous approaches and principles are created for a world which was more stabile and where there was possible to predict, can not be applied any more in public sector [15].

Organizations in public sector of the twenty first century must have capability to learn fast, and react, change and adopt to modern conditions fast.

Implementation of practice of management from private sector in public is connected to many conceptual problems, which in the first place come from many differences between these two business surrounding. This important difference is presence of political interests in public sector. Private sector is managed mostly by market forces and specific regulative processes, while activities of public sector are determined by structures and processes set by administrative agencies and state law. Organizational structure of public sector was based on Weber's theory that administration is able to reach the highest level of efficiency. This theory was supported by belief that specific duties in governmental bodies create sense of loyalty, and that leads to efficient results. However, theory of public choice is political interest, and not care for providing services to citizens. Furthermore, it is considered that its growth is followed by many inefficiencies which are increased by the lack of market competition.

## 5. CONCLUSION

Dilemma about necessity of reforms of public sector no longer exists, only the problems about possible directions and necessary measures that that reform should include. The most developed market businesses have been aware of the obligation of modernization and transformation of inefficient hierarchy structures of public companies, which would have positive influences not only on production of public sector, but performances of private sector, that is, total business and social movements, because of new way the macro-economical solutions are created. Countries which are behind the development are facing with even higher problems of huge centralization of system of public services and wider specter of public activities, which in great deal makes reforms difficult, so for them experiences of developed countries are very valuable, the leaders in the field of reform of public sector.

Starting assumptions about transformation of the way the public companies function relate on the need to increase their efficiency, like private companies. That is why new frames of formulating of business policy of public sector relate on adoption of certain market instruments and criteria of business. However, it is necessary to be very careful when this approach is applied, because of basic differences of public in relation to private sector, which is seen in organizational and individual urges. Specific characteristics of public sector, which are related on problem of multiple aims and principles, problematic measurements of performances and collective way of decision making, ask for special treatment when borrowed market instruments are in question and their application in aim of affirmation of choice and competition, which traditional structures of public companies did not have.

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## **SIGNIFICANCE AND ROLE OF THE IMF AND WORLD BANK IN GLOBAL ECONOMIC CRISIS OVERCOMING**

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**Summary:** *The international economic and financial institutions are an important phenomenon in the world, i.e. international economy. While the economic and financial experts, various profiles of scientists and leading politicians of the world's countries are trying to explain the increase and more and more intensifying and integration of national companies, the process is increasingly intensified after the Second World War. One of the key questions of economic theory in those processes is the stability and reduction of instability through those international institutions. The IMF (International Monetary Fund) and the World Bank are two organizations, founded in 1944, for the purpose of helping the member countries in overcoming the crisis, in the business operations stability and in establishing as better as possible economy and development, after the Second World War. They have maintained up to nowadays. Moreover, the role and functions of these institutions is still rather the same, provided that it has been changing under the influence of the economic ambience. This paper will first point out to the origination and conditions of organizing of these institutions, and further on, the state in the world- the global crisis in America and Europe and, afterwards, the role and significance of the IMF and world Bank in overcoming the crisis.*

**Key words:** *International economic, financial institutions, financial expert, IMF (International Monetary Fund).*

### **1. INTRODUCTION**

The international economic institutions are formed in various sizes and forms. They can be lobbying-groups for special products and international assistance to producers, common management, i.e. economic integrations for several countries-region, trading agreements and development funds for the chosen groups of countries-states or even the global organizations.

Three global (monetary, financial and trade) organizations have the main role in the international economic relations. They are the International Monetary Fund, the World Bank (IBRD) and the World Trade Organization (WTO). The World Bank and the International Monetary Fund will be specially analyzed in this paper.

When speaking about the World Bank or the International Monetary Fund, a larger number of political theorists are thinking on a formal organization. However, the economists tend to define it more in-depth and more comprehensively. For example, according to the economic theorist Daglas Nort, «the new institution» proves that the organization is not an institution by itself, but rather, according to his view, the institution has rules determining its behaviour [3, pg. 30]. Namely, it is the control limiting us. Accordingly, the organization (institution) is a set of behaviour rules. They are controlling and limiting us in the political and economical interaction and through it they also have a depressing role. The rules can be informal (behaviour, customs) or formal (constitution or law). It means that organizations can be formal or informal. The formal ones prescribe the set of rules explicitly claiming what is and what is not allowable. Rules can be embodied in a club, association and legal system. The IBRD and IMF are classified into the formal organizations because they fulfill the above mentioned conditions of formality.

In this analysis a special emphasis is placed on the role and significance of the international institutions- the IBRD and IMF in times of today- the today's economic crisis. With regards to it, it is of key importance to primarily define the purpose of founding of these organizations, their operations and role in today's crisis ambient.

## **2. GLOBAL ECONOMIC CRISIS, SIGNIFICANCE AND ROLE OF IMF AND WORLD BANK**

Nowadays, on the world's stage and in all global flows, whether economic, political, humane or any other, the key role belongs to the following three global world organizations: The World Bank (IBRD), the International Monetary Fund and the World Trade Organization (WTO).

The IMF and IBRD date from the end of the Second World War. The World Trade Organization is formed in 1995, as the result of the commercial negotiations ended in 1993 by Uruguay round of negotiations. The WTO has arisen out of the GATT- with one new expanded role. It is important to know that the history and function of GATT is also identical for the World Trade Organization. However, one should have in mind that the history of each organization is controversial because the power of management over them is based on the level of invested foundation quotas of the member countries. Those are precisely the industrially developed (the richest) countries of the world. Those countries, according to their interests and criteria, direct the activity of these international organizations. This relation of the most developed is mostly manifested as a threat to independence and even the national sovereignty, especially of the developing countries and undeveloped countries. Some economists and non-economists consider these organizations as large bureaucratic structures submerging the sources, acting negatively and even advising adversely. The effectiveness of these organizations and their role in supporting the global trade is controversial.

Those believing in the stability of capital economy and economy in general, see the less need for this type of organizations, or even pose a question on the possibility of establishing the instability of a long term character and with it neglect the role of the global international financial institutions. Those fearing the possibility of the international instability, support the importance of these organizations and their modes of behaviour.

They substantiate it by the following [3, pg. 32]:

- firstly, they are included (existent);
- secondly, they create the set (of several) rules managing almost all segments in the international economic relations and
- thirdly, they provide the forum not only for deliberation but also for decision-making on modifications of all the acts and rules.

Precisely due to these arguments, one number of theorists considers that without those organizations the global economic instability would be much greater. By the very existence of these organizations, by them having a strong power both in economical and political sense, they have a powerful influence on all the countries of the world and on their politics, economy and similar.

### **2.1. Global crisis of 2008-2009**

The global financial crisis, witnessed by us today, is the worst crisis of such kind since the Great Depression that struck the world in 1929. The crisis has become apparent at the end of September in 2008, after the plans of merging and rescuing several great financial institutions in the USA have failed. For months in advance, many businessmen and analysts have been pointing out to the exposure of the American and European financial institutions to crisis of the second-rate mortgage loans, but no one listened to them at that time, and now it is too late for avoiding the crisis. Starting with the collapse of large financial institutions in the USA, the crisis spread fast throughout the world, resulting in problems even in the European banking sector.

In accordance with the collapse of the financial sector, many shares and goods have been losing their value. The crisis has led to illiquidity and decrease of the levers the financial institutions apply, especially in the USA and Europe. The world's political leaders, finance ministers and central bank's presidents have coordinated their efforts in order to alleviate the crisis effects and to appease the investors. Such policy has not been fruitful due to constant changes of the crisis that is difficult to follow.

At the end of November, a problem appeared at the foreign exchange market due to fleeing of a large number of investors towards stronger currencies such as yen, dollar and Swiss franc. The trends have led many developing economies into unfavorable position and impelled them to ask help from the IMF.

### **2.2. The IMF and global crisis**

*“Until recently we have been like firemen without fire”,* this is how Christoph Rosenberg, the head of the head office for middle Europe and Baltic countries, commented the activity of the International Monetary Fund.

The IMF has been founded after II World War with the main goal of maintaining of the currency relations between euro-atlantics developed countries.

*The transition to the system of the fluctuating exchange rate system has coincided with the worsening of the economic climate of industrialized countries. The economic growth stagnated during 1970-ties and the inflation grew. At the same time, the interest rates have been quite low and there was sufficient international capital*

*available, as the result of the surpluses of the countries exporting oil. Many developing countries have taken great loans from the Western countries for the purpose of maintaining the growth, often up to the extent beyond the proportions of their capability to repay the debt [5, pg. 56].*

The role of the IMF as the catalyst has been especially evident in additional financial resources mobilization. It has soon become the final address of helping for developing countries with difficulties. It granted credits with conditions of ensuring the fiscal discipline and introduction of the elements of market economy such as abolishing the customs barriers, the floating exchange rate...

It has been especially active after nineties in post communist countries, by imposing the fiscal discipline to them, and then in the period of crisis of Mexican Pesos, and at the most during the Asian crisis in 1997. Not everyone liked the conditions imposed by the IMF. Russia, Brazil and Argentina have repaid the credits before the set period, accusing the IMF that it is the extended arm of America. However, analysts agree that the IMF, despite the painful cuts, has established a solid financial system in countries like Korea, Mexico, Thailand and other.

The global economy at the verge of global recession has been warned by the International Monetary Fund. By the unusually direct and pessimistic estimation, the IMF has landed a hard blow to the politicians endeavoring to regain trust in trading shares, shaken by after the terrorist attacks on New York and Washington.

Even before those attacks the IMF has severely downsized its previous predictions of the global growth for that year, and later on it has been said that the outcome will be even worse. The impacts of the economic concussions accumulate promptly after the attack on the World Trade Center and Pentagon. The value index of the shares on the New York stock market - Dow Jones has fallen more than ever after the great depression of the thirties of the last century, about 130.000 Americans have been left out of work and the insurance companies have lost more than 20 billion dollars.

*There is little likelihood that the global economy will record the predicted growth rate of 2,6 percent in this year, because the terrorist horror has postponed its recovery-* says the main IMF's economist, Kenneth Rogoff.

The growth rate less than two and a half percent is ranked as a recession by the IMF. Till the last year the global economy has grown even at 4, 7 percent rate. The IMF believes that in the next year the global economy could rapidly recover, but only if the politicians undertake urgent and focused measures. These measures, according to the IMF, would have to include decrease of the interest rates, ensuring money for public consumption and "pumping in" the money into the money market in order to prevent the banks' and money institutions' bankruptcy.

### **2.3. The World Bank for Recovery and Development (IBRD) and economic crisis**

The purpose of foundation of the World Bank for Recovery and Development (IBRD) has been to provide a stabile and long term development of national economies and thus create the presuppositions of the balance of payment stability and decrease the need for financial interventions by the IMF.

By founding the Bank, the financial support should have been provided for development of those segments in the economy of certain countries for which the private capital is no interested in, and which are the presupposition of the economical growth of the country [10].

The World Bank, within the available resources and with the available personnel, independently or in cooperation with other international organizations, is trying to provide assistance to any developing country, individually, in maintaining the stable economy and to help the economic growth of those countries.

Therefore, the World Bank since its foundation has been directed towards helping developing countries, and helping them in the case of the today's crisis as well. This year the global economy has recorded its first recession since the Second World War. It is believed that the recession will the most heavily strike the Eastern Asia. Already 94 out of 116 developing countries record the slowed economical growth.

This year the global economy will record the first fall of activities since the Second World War, forecasted by the World Bank before the meeting of the finance ministers and presidents of the central banks members of the developed and developing countries group G 20 [10].

The Bank with its head office in Washington has informed that the global trade is moving towards the heaviest fall in the last 80 years, and that this trend will most heavily strike the East Asia.

The economic prognosis of the World Bank is even more pessimistic than the one by the International Monetary Fund (IMF), which has predicted the growth of activities in the global economy in January to the level of modest 0,5 percent.

Three out of four poor countries do not have resources for the struggle against the increasing poverty under conditions of the actual slowing down, and the international financial institutions will not be able to help developing countries during the crisis itself, warned the World Bank.

### 3. CONCLUSION

The previous analysis has clearly shown the significance and role of the IMF and the World Bank in crisis conditions nowadays. Namely, the IMF has been founded (in 1944) with the purpose of supervising the international monetary system- supervision over the monetary policy and the foreign exchange rate policy of the member states.

The purpose of foundation of the World Bank is to provide a stable and long term development of national economies and thus create the presuppositions of the payment balance stability and decrease the need of the IMF's financial interventions. By founding the Bank, the financial support should have been provided for development of those segments in the economy of certain countries for which the private capital is not interested in, and which are the presupposition of the economical growth of the country.

Nowadays the whole global economy is under crisis. The crisis is reflected in the global fall of liquidity and lack of finance, and again the key role belongs to the IMF and the World Bank. Namely, in the periods of economic growth, these institutions have had fewer obligations in the segment of providing advice and financing.

Accordingly, it can be stated that the IMF has a more significant role in overcoming the developed countries crisis in the following way:

- by injecting the financial resources;
- by maintaining the stable, orderly and predictable balance of payments;
- by balancing the global trade;
- by the issue of supervising the international liquidity;

The IMF has up to now granted the credit of 2 billion dollars to Iceland, 16 billion to Ukraine and 25 billion dollars to Hungary, but also to Bosnia and Herzegovina- the Stand by arrangement. For the first time a credit has been granted to one of the EU members. More demands are expected because the currencies of developing countries are abruptly falling and there are more and more companies having difficulties of servicing the credits that they have been taking abroad with the foreign currency clause.

On the other hand, the World Bank is more directed to developing countries and the question of overcoming the crisis in these countries. The World Bank predicts that in the period of global recession, in this year only the developing countries are facing the financial deficit of at least 270 billion and perhaps even up to 700 billion dollars.

Three out of four poor countries do not have resources for the struggle against the increasing poverty under conditions of the actual slowing down, and the international financial institutions will not be able to help developing countries during the crisis itself, warned the World Bank.

Finally, what can be concluded from the mentioned is that the role and significance of the IMF and the World Bank reflects in providing financial support to the member countries, providing consulting services, predictions and prognoses and defining the ways of coming out of the crisis.

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## STATE OF MANAGEMENT IN EDUCATIONAL SYSTEMS OF SERBIA

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**Summary:** Every national community, depending on the available resources and its own determination develops its attributive economy and society, expressed through the national development strategy in which education occupies a highly important role. The mentioned statements also apply to Serbia. Serbia belongs to Europe and is a part of the European culture and civilization. That is why, when it comes to education it must rely primarily on the European system of education, i.e. the standards accepted and adopted by the European Union. On the other hand, the educational systems must follow and adjust its activities with the labour market both of the one in Serbia and beyond the national borders, and above all when Europe is in question. Educational activity in Serbia, with relation to the management, shares the destiny of the other sectors of economy and society. The management in our country has not yet come to life to the extent and at the level of its practical application in countries of the developed market. Managing the educational institutions in Serbia is regulated by legal procedures on the basis of the education and pedagogic system, as well as by the Law on university education. Regardless of the lack of data on how many managers are wanted in the educational system of Serbia, it can be stated that the number is imposing and that the need for highly professional managerial staff will be increasing in the future. The purpose of this paper is to provide the review of management states of educational systems of Serbia and its concordance to the management of educational systems of developed countries, primarily of the European Union.

**Key words:** educational system, standard, management.

### 1. INTRODUCTION

Every national community, depending on the available resources and its own determination develops its attributive economy and society, expressed through the politics, i.e. the national development strategy. During creation of its own path of development, each community uses some general cognitions and experience from other countries, but also respects its own peculiarities and features differentiating it from the other countries. The stated points out that there are no isolated countries and that each must respect the closer or the further environment, with which it is in iterative relations and connections. In modern conditions it becomes more expressive, because the integration processes have abolished the national, customs and other barriers and made the world into a global village.

The mentioned statements also apply to Serbia, which again has a set of common but also of special physical, climate, technological and especially national, religious, customary and other culturological-social factors and influences. Serbia belongs to Europe and is a part of the European culture and civilization. That is why, when it comes to education it must rely primarily on the European system of education, i.e. the standards accepted and adopted by the European Union. Serbia is a part of Europe, i.e. the one of its subsystems. The relation between the European Union and Serbia should be viewed as the ratio between a totality and the part. The power of the European Union is determined by the weakest link in the totality. Thus, the European Union must be interested in each of her parts being balanced, which influences its efficacy. Serbia as well must be interested in sharing the system of values formulated at the level of the European Union, because out of the totality it can use certain potentials not disposing of its self.

On the other hand, the educational systems must follow and adjust its activities with the labour market, i.e. with the employers' requests, both of the ones in Serbia and beyond the national borders, but above all when Europe is in question. In that sense in high-educational systems the Bologna declaration is established as the document adopted at the level of Europe and according to which all countries that have signed it should establish unique

standards and criteria and all for the purpose of harmonization and greater propulsion of people when it comes to the employment.

## 2. STATE OF EDUCATION IN THE REPUBLIC OF SERBIA

Numerous times we could see in the scientific and companion papers the statement that human is the most valuable resource of some organization and that an organization is made of people, i.e. the knowledge, skills, capabilities and their psycho-physical state. However, the statement makes sense only when people, as the most conscious living beings have the knowledge and skills and when they are prepared to put it into the function of an organization, whether it is about macro, mezzo or micro levels. On the contrary, people without the stated qualities do not represent great potential and can often be an obstacle in the development.

Serbia has a problem with the educational level of population. This question is often placed on the margin, even though it represents the limiting factor of further development. Indeed, formal but also the purposeful education, training and tuition significantly influence the growth of aggregate productivity of work, and through it on the economic development as well. That the statement on the neglecting of education in Serbia is correct is also shown by the National Development Strategy of Serbia. Through the absolute and relative amount of segregation of the resources from the national income, the attitude of one national community toward education, i.e. the future can relatively easily and with great probability be ascertained.

Statistical data show that Serbia still has got a great percentage of uneducated citizens, which can relatively be seen well from the table showing the state of education in Serbia according to the levels of qualification [9]:

<b>Type of qualification</b>	<b>%</b>
Without qualification	6%
Uncompleted primary school	16%
Eight-year primary education	24%
Secondary school	41%
High school and university education	11%
Unknown	2%

The following conclusions can be deduced from the table:

- That in Serbia still exists the category of people having no qualifications.
- That about 40% of citizens of Serbia is at the level of incomplete, or complete eight-year primary school education.
- That somewhat more than one third of the citizens have Secondary level qualifications.
- That each tenth citizen has high school or faculty education, whereas each fifteenth has faculty education.

Although the changes in the educational structure of the citizens of Serbia have been positive related to the ones in 1953, i.e. 1981, yet, from the point of view of promptness and radicalism of the changes that have happened and are happening today in all the segments of economy and society, they are too modest and are not in the function of a more significant progress, i.e. growth and development of our society, but neither of the better living standard of the individuals.

In the Strategy for poverty reduction of the Republic of Serbia, it is pointed out that the greatest risk of poverty have the households where the household holder has uncompleted primary school. Also, the high risk of poverty have the households where the holder has finished primary school and it amounts to 55,5% [4, pg. 22].

The number of pupils and students in Serbia and Montenegro is also one of the parameters based on which it can be concluded on the education potential of Serbia.

From the total number of pupils and students in SCG in 2001 amounting about 1.300.000, the structure of certain levels of education looked like this [2, pg. 83, modified]:

<b>Levels of education</b>	<b>Number of pupils-students in 000</b>
Regular primary school education	780
Regular secondary school education	346
High school education	51
University education	152

It is evident that from the total number of pupils and students 60% are included in and belong to the regular education. However, the statistics shows that this number has decreased related to 1992 for about 12%. The greatest increase in relation to 1992 has been recorded in the category of high school and university education, respectively for about 100% and 50%. The category of secondary school education in 2001 has recorded the growth of only 1%.

The third parameter based on which the state of education in Serbia can be stated is the number of teachers in Serbia and Montenegro. Also according to this parameter the dynamic growth has been recorded till the eighties, in order to have a cyclic flow from 1982 till 2001. The structure of number of teachers and the associates in 2001 looked like this:

<b>Category of education</b>	<b>Number of teachers and associates in 000</b>
Regular primary school education	49
Regular secondary school education	27
High school and faculty education	2

From the table it is visible that from the total number of teachers and associates in 2001 over 55% is related to the teachers in the category of regular primary school education, that 35% is related to the secondary school education and the remaining is related to the high and university education.

The state of scientific- research work can also be the indicator for perceiving the tendencies in the educational sphere. In the scientific-research organization in 2000, there have been 212 organizations wherein 24000 people have been employed. From the mentioned number about 50% is related to the scientific staff. About 60 scientists came to one organization.

The ratio of scientists and researchers per total or active citizens amounts about 12 scientists and researchers per 10.000 citizens. Comparing it with the data of developed market countries, the twice greater backlog is evident related to France, Germany, USA and USSR from the nineties of the last century [8, pg. 588-593].

In the scientific-research activity the personnel disintegration of resources financing the activity is evident. This fact negatively influences, i.e. makes more difficult the supply of modern techniques and technology without which it is impossible to imagine the progress in this area.

Accordingly, it can be noted that the educational sphere in Serbia is bad and that the educational sector shares the destiny of other activities. This fact points out that the increase of productivity, i.e. the growth and development on the national level cannot be conceived without more radical and fundamental changes in this area. The financial resources are not the limiting factor herein, but the willingness of higher valuing the knowledge people and the conception that education is the key factor of any society development. In that sense, the radical transformations are necessary and the transferring off education from the classical into modern system existing in developed market countries.

### **3. WHAT MAKES THE EDUCATIONAL SYSTEM OF SERBIA?**

Educational sector is a set of mutually connected and dependent systems having common features and endeavouring individually or mutually coupled to accomplish goals set before them by the founders. It belongs to service sector, besides social, health, cultural and public.

Standardization of educational institutions can be differentiated upon: the level of education such as: primary, secondary, high schools, universities, academies, institutes, etc. In broader sense, the educational-pedagogical and cultural institutions are also the other organizations dealing with the education, training, instructing, such as: nursery schools wherein children are educated and brought up, military organization dealing with education, training and qualifying the population for protection, i.e. provision of survival, growth and development, as the basic goals of any organization functioning. Belonging here are also sport, cultural- educational institutions and organizations dealing with, in broader sense, the educational-pedagogical work: To Deming, the system of education includes: state, private, parish, trade and handcraft schools, universities, etc. All of them should create educated citizens and independent thinkers that can differentiate benefit and damage by themselves, i.e. good and evil and which should be qualified for independent life and work [1].

Services and service organizations in general differentiate according to the design, but also according to the functioning and management related to the primary, i.e. processing sector. The most important for the management is that the educational system is operationally intensive, i.e. that it has high presence of live work.

Educational sector absorbs large human and material resources. It employs large number of people. It disposes with realties and equipment, tools, materials of great value. For example, in Serbia and Montenegro according to the statistical data from 1999, there existed around 5200 educational schools, with about 90.000 of the employed and with about 1.420.000 pupils and students, totaling to over a million and five hundred thousand persons. This large number of employed, i.e. pupils and students is significantly greater than another activities, imposing the need for providing the employees with appropriate work conditions, but also of the sufficient salaries for living and also of organizing the teaching and other activities related to it.

An organization is not made of buildings, furniture, tools, devices, etc. An organization is the people. If the human factor wouldn't exist, it could hardly be discussed about the organization, because man is the basic factor

of the organization. It is logical as well, and we can assure in it daily, by observing the ways in which also function individual systems of educational sector.

A school as an education system is made of the relations between: the professors, pupils or students, non-teaching personnel as well as their relation with the environment. When we would remove the teaching and other personnel, i.e. the pupils and students, would it represent a system, i.e. an organization? The answer is negative.

Deming points out that school is not formed only by the pupils, teachers, school committees, school management and parents operating separately in order to realize the goals. Instead, an educational system should be a totality wherein those groups work together in order to achieve the goals set before school by the community, and they are the growth and development of children and the preparation that they start contributing the society progress.

For educational sector, i.e. individual systems it is characteristically that they have a clearly set goal, as one valuation judgment set by a man. The goal setting is relevant for the economy sector as well, but it seems that this element in education has greater specific weight, because the services are much more complex related to a product, i.e. the goods. Organizations with clear goals will advance faster, even on the path full of obstacles. Organizations without goals are sentenced to death, which is natural, because the one not knowing where he should arrive only wastes time, energy and financial resources. To the organization without goals all paths are equally suitable.

The educational sector in Serbia according to its organizational design is deeply structured and centralized. The Government of the Republic of Serbia, according to the corresponding laws, is the most frequent founder of all institutions owned by the state. These institutions regarding the financial, development, personnel and investment policy, are managed from the competent ministries, creating great problems in fast reaction to certain changes coming from the environment.

The educational sector of every national community and of Serbia as well is the most powerful by the expertise. It has significantly larger percentage of university qualification related to the industry sector, imposing the need that in managing them a softer managing style is applied, and for the managers experts for managing are appointed that nurture the style of winning over the people for realization of the institutions' goals. It is also natural, because by the sanctioning, threatening and by "beating and directing with a stick" nothing can be achieved not even in a family, and let alone in a highly intellectual institution. Accordingly, management in educational systems of Serbia should be organized on the principles of transformational and not classical principles.

The educational system in modern conditions faces increasingly complex conditions of functioning. This complexity is conditioned by the turbulent ambient where lot of unexpected changes happen, and, on the other hand, the sides providing changes happen very fast. That is why many educational systems often find themselves caught by the changes happening to them. So that it would not come to it, the organizations should meet forward the changes and prepare themselves for the incoming changes so that they are readily welcomed and so that the changes would not reach and surpass them.

#### **4. CHARACTERISTICS OF EDUCATIONAL SYSTEM OF SERBIA**

Educational activity in Serbia, with relation to the management, shares the destiny of the other sectors of economy and society. The management in our country has not yet come to life to the extent and at the level of its practical application in developed market countries. In some of the elements it even got worse related to the period two decades ago. To a great extent it has been the result of our total underdevelopment as well. Lack of professionals for managing the economy and society is surely one of the main reasons of our collectively bad state. It is shown that without highly professionalized managerial structure and responsibility a more radical step cannot be made from the existing underdevelopment and non-competitiveness.

The stated conclusion can be deduced to a great extent from several facts, the following being the most important:

- In the educational system of Serbia dominate the state educational systems of all types. The private sector in this area is still marginal. Little is spoken on the privatization of the educational systems in Serbia, which is also directly reflected on the chances for introducing professionalism in the management. This is leading to the inertness of the system, disinterest in the greater efficacy because it is protected under the "umbrella" of the state, insufficient interest in the quality of educational and pedagogical process and its product.
- The educational system of Serbia according to all the characteristics belongs to a group of highly structured systems, i.e. to the so called systems of "deep range", wherein the classical relations of super and subordination from the highest to the lowest level exist. In thus designed and maintained structure, each higher level has a greater quantum of authority related to the lower levels, meaning that the lower levels are obligated to execute the decisions of higher levels, the way they are indeed defined, i.e. with low level of flexibility. It is shown that two identical educational systems do not exist and that the greater flexibility would improve all the elements of the organization and management process.

This kind of designing is not in accordance with conceptions of service organizations nor with the designing of the intellectual organizations that are, as a rule, "shallow" and more flexible related to the organizations from the primary and secondary sector.

- The Serbian educational institutions, i.e. systems, are governed by the people not educated for managing. It is a real exception of finding the headmaster of school, faculty, institute or other educational institution who has finished high business school in the country or abroad, having the experience in managing the systems and accomplishing their mission. Without the diploma of high business schools the greater number of headmasters or deans is actually not competent for managing the educational institutions. Accordingly, it is hard to expect of the system to be successful and to withstand the competition at the choosy and increasingly sensitive educational market that, to a great extent is becoming international as well.
- The educational institutions' managers do not practice permanent education, i.e. acquiring knowledge and skills from the management sphere. In Serbia, seminars and symposiums are organized in the area of educational processes, but in the sphere of management whereat the directors, deans or managers under different names would be trained for successful organization of the management process.
- The managers and leaders in the educational sector are insufficiently acquainted with information technologies and techniques, accounting and finance, and in the framework with the cost management, logically since they have not been educated for professional dealing with managerial operations. If to it the problem and not knowing foreign languages is added, it can be noted that the existing state of education management is a significant obstacle for increasing its efficiency, whether it is about the economic effects or the quality of "product of education".
- In Serbian business and non-economical milieu, there is still the practice of appointing, denominating headmasters and managers. This is the recurrence of the classical and surpassed organization. Thus, the headmasters, deans, rectors and other leaders become the public functionaries executing the decisions of the competent Ministry, are loyal to those that have appointed them and not to the rules and principles of the vocation and profession. This conclusion is not questioned even under conditions when the school boards, managing boards, councils and other institutions are formed.

From the stated it can be concluded that the Serbian, conditionally speaking, educational management has great problems. It is not capable of efficiently managing the systems entrusted to it and especially to make the systems more competitive in the international level, specifically when it is about the university education.

## 5. CHARACTERISTICS OF EDUCATION MANAGEMENT OF SERBIA

Managing the educational institutions in Serbia is regulated by legal procedures on the basis of the education and pedagogic system, as well as by the Law on university education. Based on the Law, the educational institution regulates the management by the founder act or by the general act of the institution. Thus, for example, in the educational institutions the founder of which is the Republic, the following managing bodies are formed: The managing board, school board, faculty council. Their rights and competence are determined by the Law. Their most important competence is to decide on the rights and responsibilities of the headmaster or dean. The decision of the managing bodies on the choice of the headmaster is final if the Minister competent for education gives consent on the managing board decision.

It is clear that the managing bodies in educational institutions have no knowledge in the area of managing, organizing, predicting future and setting and executing the goals. Thus they do not increase the efficiency of the educational institutions, but they rather represent the stereotypes. The managing boards practice has proved to be unsuccessful even in the large global companies, which P. Drucker states as well: "According to the American law, the managing board is still considered to be the managerial body of the corporation. The authors writing on management and the people dealing with managing from the scientific point of view, agree that strong managing boards are still of essential importance, on which they have been writing for more than 20 years. Besides, the role of the top management of our great companies has been decreasing for half a century already, due to the greater role of managers, their authorizations and independence. Whenever some great company experienced business failure, during the last couple of decades, the last person seeing that the things have gone wrong, would be the managing board" [3, pg. 175].

Although Drucker believes that the situation in the non-profitable organizations is completely different per this issue and that the managing boards are efficient, and having in mind the complexity of problems and the fast changes in modern conditions, it is obvious that the managing boards in modern conditions are conceptually unacceptable. This is even more confirmed in the Serbian education, because it is known that the state delegates its representatives determined by their political determination, due to which the managing boards should be completely transformed, or abolished as such. The reason is simple and comes out of the indisputable attitude that they do not contribute the business efficacy and efficiency of the educational institutions.

The increasing turbulence and complexity of the problem appearing at the national, global and at the level of educational systems, imposes a necessity of nominating the professionals for management in the educational systems in Serbia, which will be exclusively be dealing with this job and which hold the occupation of education manager. They should take over the professional management over the educational institutions, because it is clear that the school and managing boards, i.e. councils are not specialized to manage and make managerial decisions of the strategic importance. This practice has come to life in highly educated countries, both in the primary and in the secondary, i.e. service sector as well, to which the education belongs to.

However, the professionalization and professionalism in Serbia is completely missing, so that the education management is left to incompetent people regarding the management area. This conclusion is derived from the indisputable attitude that the educational systems are managed by the experts that have not finished schools for management, the only one providing the certificate, or diploma as an evidence that someone is competent for managing the educational systems. Therefore, the managing operations are dealt by with incompetent experts for this area and it is similar to the situation when an economist would perform an engineer's job or a philologist the jobs of an economist. Thus, the mentioned experts have faculty education, but it is inappropriate for the concrete sphere, and that is for the management sphere.

The necessity for experts for management in all areas does not need to be specially explained. Indeed, the experience of developed countries shows that "in the West Europe there are about 200 business schools, or places where the experts for management are educated, whereas in the USA only there are over 2.000 of them. When only regular studies would be taken into consideration, or lower forms of education, including the non-institutional forms such as courses, post-graduate, i.e. master studies, this number would be increased by several times. In Athens only, there are about 50 high school institutions where management can be studied. The renowned European schools have their branch offices all over the world. High business schools are being opened in the transition countries as well, both individually and in cooperation with the international faculties and universities [6, pg. 371-372].

The high education institutions are founded in Serbia wherein the managerial personnel is educated. However, the number is insufficient related to the needs, naturally since it is known that the long-term one party government in Serbia has had negative attitude towards management and considered it to be the greatest enemy of the so called self-management socialistic society. The necessity for all types and levels of management is shown in all sectors of the economy and society. Thus the research of the Institute of the Faculty of Economics in Belgrade in the mid-nineties of the last century has shown that Serbia lacks about 200.000 managers and that it is the occupation and profession being wanted the most.

Regardless of the lack of data on how many managers are wanted in Serbia, it can be stated that the number is imposing and that the need for highly professional managerial staff will be increasing in the future.

Therefore, Serbia has no professional managerial personnel for managing the educational systems of all levels, from primary school through secondary to university education. Nothing is spoken on the management professionalization in education. Indeed, at the existing faculties for business studies and management there are not enough courses for education management. The need for these personnel is evident starting from the primary to university education. And not only that. Within the management faculties it is necessary to diversify the study programs where headmasters of primary and secondary schools would be educated, the principals of high schools and institutes, to deans, vice-deans to rectors and vice-rectors, so that in the next period the specialization of educational systems management would evolve in the singular types.

## **6. CONSLUSION**

Educational sector is a set of mutually related and dependent systems having common features and endeavouring individually or mutually coupled to accomplish goals set before them by the founders. It belongs to service sector, besides social, health, cultural and public.

The educational sector in Serbia according to its organizational design is deeply structured and centralized. The Government of the Republic of Serbia, according to the corresponding laws, is the most frequent founder of all institutions owned by the state. With regards to the financial, development, personnel and investment policy, these institutions are managed by the competent ministries, creating great problems in fast reaction to certain changes coming from the environment.

The educational activity in Serbia, with relation to the management, shares the destiny of other sectors of the economy and society. The management in our country has not yet come to life to the extent and at the level of its practical application in countries of the developed market. Managing the educational institutions in Serbia is regulated by legal procedures on the basis of the education and pedagogic system, as well as by the Law on university education.

It is clear that the managing bodies in educational institutions have no knowledge in the area of managing, organizing, predicting future and setting and executing the goals. That is why they do not increase the efficiency of the educational institutions, but they rather represent the stereotypes.

However, the professionalization and professionalism in Serbia is completely missing, so that the education management is left to incompetent people regarding the management area. The conclusion is derived from the indisputable attitude that the educational systems are managed by the experts that have not finished schools for management, the only one providing the certificate, or diploma as an evidence that someone is competent for managing the educational systems.

Regardless of the lack of data on how many managers are wanted in Serbia, it can be stated that the number is imposing and that the need for highly professional managerial staff will be increasing in the future. Within the management faculties it is necessary to diversify the study programs where headmasters of primary and secondary schools would be educated, the principals of high schools and institutes, to deans, vice-deans to rectors and vice-rectors, so that in the next period the specialization of educational systems management would evolve in the singular types.

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## MANAGEMENT DISTINCTIVENESS IN EDUCATION

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**Summary:** Managing some activity, first of all, means knowing and understanding the essence of the activity and then the essence of the management process; meaning that managing education presupposes basic knowledge and comprehension of educational activity as well as knowledge and skills of management. The educational system management presupposes the clarity of relations between educational conception, educational strategy and system of education. Management over an institution must take care on two groups of activities: on regular teaching and activities related to the institution development. Educational institutions are necessary to be considered as the adaptive systems wherein people mutually cooperate for mutual purpose- advancement of the educational process as a whole. The educational institutions grow and build themselves through knowledge they create, through the processes by which the knowledge is transferred on others and through the exchange and relations created between people in that way. Knowledge management joins together three basic organizational resources- people, processes and technology, in order to enable an organization to apply and share the knowledge in the most efficient way. The purpose of this paper is to represent basic distinctions of management in education related to the other areas and the possibility of its improvement.

**Key words:** managing, educational institution, management.

### 1. INTRODUCTION

Complex problems often occur in management practice. The complexity of those problems as a rule results from some amount of uncertainty (lack of information) during their defining, their solving or during choosing the most favourable solution out of a set of possible solutions. Precisely out of this reason for such problems it is said that they are poorly structured.

The most significant problem in resources management (money, time, space, material properties) is their optimal allocation. By adequately solving this problem, the prerequisites are provided for successful management.

The educational system management presupposes the clarity of relations between the educational conception, educational strategy and system of education. The isolated studying of the system without the conception and strategy would be unilateral and incomplete. The unity of conception, strategy and system contributes to the complete comprehension of the educational system phenomenon and the management.

Management over an institution must be concerned with two groups of activities: on regular teaching and activities related to the institution development.

Educational institutions are necessary to be considered as the adaptive systems wherein people mutually cooperate for common purpose- advancement of the educational process as a whole. The educational institutions grow and build themselves through knowledge they create, through the processes by which the knowledge is transferred on others and through the exchange and relations created between people in that way. Knowledge management joins together three basic organizational resources- people, processes and technology, in order to enable an organization to apply and share the knowledge in the most efficient way.

As organizations dedicated to mission of education, schools, faculties and universities are in charge of transferring knowledge to pupils and students-through sharing knowledge of pupils and professors, between pupils and the references and other resources, and between the pupils themselves. The knowledge management in education is the framework or an approach enabling people within organization to develop the set of skills for collecting information and sharing of what they know, further resulting in activities directed to improvement of providing services to the external users.



The knowledge management practice in education completely corresponds to modern and contemporary education requirements. Making sense of the information and transforming the information to knowledge is the crucial step for the complete process of education, but participating in what an individual is learning and transferring knowledge to others is a much more difficult step. The purpose of knowledge management in education is precisely insisting on sharing and increasing the knowledge benefits existing in one educational institution. In that way, the knowledge management contributes accomplishment of business goals of all participants in the educational process.

## **2. DIFFERENT WAYS OF ACQUIRING KNOWLEDGE**

The knowledge management is an extraordinarily challenging and complex task. That is why knowledge acquisition is a constantly changing and advancing process. Thence the existence of three basic problems in business systems related to the problem of the knowledge management, being the following:

- How to define the knowledge parameters;
- How to identify what is relative knowledge against the period of the operative scenarios;
- What is the most efficient way of managing knowledge in order to gain advantages related to competition and based on it, accomplishing the additional effects.

Knowledge is of special significance for tertiary sector, and accordingly for educational systems as well. These organizations' management must encourage the employed to acquire knowledge permanently, i.e. that the intellectual force is permanently increased and thus gain advantage related to the competition. Furthermore, it is necessary to teach the employed on the most efficient way of acquiring knowledge.

People come to new cognitions on the rules, principles and legalities of natural and social order in the following several ways:

- Through sensual cognitions
- By means of tools and weapons
- By means of scientific apparatus.

By observing the occurrences in nature and society, repetitions and similarities of certain flows and events are perceived. These cognitions are kept in the memory in order to subsequently create a notion on some identical or similar occurrence, i.e. event. Thus the newly acquired cognitions become irreplaceable basis for managing and directing the individual and joint activities towards the desired goal.

With development of society, there has come to constructing of the more and more improving and diversified tools and weapons that have been in the function of improvement of making the speculative constructions and afterwards their realization. Among them, the most significant place is occupied by constructing and perfecting the so called artificial memories wherein the acquired cognitions are stored, i.e. archived so that they could be available to other people as well for their exploitation.

In that way the cognitions and experience are transferred from generation to generation, perfecting them which has enabled construction of science as the most efficient tool the human species has designed in its relatively long genesis. The tool is permanently perfected and complemented by new knowledge and cognitions used in the thinking process for generating new organizational forms and methods of managing organizations. Owing to it, management has become a new production work power, i.e. the factor of operations in the greatest extent determining the efficacy of the organization's operations as well.

Thus determined scientific legalities become the foundation of all modern forms of management. The process is constantly running. Owing to it, for less than a decade the same amount of scientific cognitions has been acquired from the area of organization and management as in all previous periods of human civilization. The modern period takes on all of the characteristics of the revolutionary innovation age. All of it is pointing out to the need of somewhat further defining the scientific legalities, because this tool has become the irreplaceable instrument in the modern management. For management it is important to know how and where to learn [3].

### **2.1. Ways of learning**

The place and way of learning is the space and the technique man is using in order to acquire new knowledge and skills. They have varied depending on the level of human society development, due to which the ideogram of learning can be designed. Having in mind the historical context, acquiring knowledge and skills, i.e. learning can be:

- Self-learning
- Learning from animals
- Learning from other people
- Learning through a group- organization
- Learning from tradition and past

- Learning through training
- Learning in specialized educational institutions
- Learning from success and mistakes

### 3. ORGANIZING SCHOOLS AS MAIN EDUCATIONAL INSTITUTIONS

The formal system consists of: (a) preschool bringing up (0-6/7 years old); (b) mandatory primary schooling (6/7 – 14/15 years); (c) secondary school education including gymnasiums, secondary vocational and art schools (from 14/15 to 18/19 years); (d) third level of education, both university and non-university level as well (lasting from 5 to 5-6 years). Non- university education is performed in two-year high schools.

The mandatory schooling has two levels: From 1<sup>st</sup> to 4<sup>th</sup> grade (class teaching) and from 5<sup>th</sup> to 8<sup>th</sup> grade (subject teaching).

The secondary school education includes four-year secondary schools, generally educational (gymnasiums) and vocational, as well as the two-year or three-year vocational schools.

This system also includes: art and music education (primary- medium and high), special education (for all categories of children with special needs), education on minority languages (at all levels) and adult education.

A million and six hundred thousand persons out of the total population of 8,4 million citizens are included into the formal education system. There are about 100.000 teachers, from schools to university ones, including the associates (pedagogues, psychologists, librarians, social workers, special pedagogues for children of special needs). Nearly 55% from the number is employed in mandatory primary school education. 27% are the secondary schools' teachers and professors, 10% the university and about 8% are pedagogues. The pre-school institutions have about 18.150 employees; 48,5% of them are pedagogues, 16,6% are medical staff and 34% are administration and other personnel. ).

The education is mainly financed by the state. The mandatory education is the state-owned because the approved private schools are artistic. The pre-school education is financed by the state and by the parents, and private pre-schools institutions are allowed. The secondary and high school education could be organized in private organizations upon decision by the Ministry of Education.

The educational system is a social system implying the set of parts the individual actions and mutual relations of which are regulated and ordered by social laws and principles with the purpose of realization of the educational conception, i.e. the strategy of education. Just the educational system as such can provide concrete answers to the questions posed in the context of the educational conception- why, what and when to educated and with it how and where to learn. The overall definition of educational system arises from the answer to the just posed questions. Therefore, it can be concluded that the educational system is the totality of institutions, organizations, means, forms, programs and manners by means of which the educational needs of young and adults can be satisfies during the whole life for the purpose of personal and social development. The educational system consists of elements, i.e. minor or greater number of sub-systems and their relations. The classifications of the elements of the sub-systems can vary, based on the different criteria, and the mostly classified are those deduced for the systematic analysis requirements. The division of the educational systems (sub-systems) to the institutional and off-institutional, to the schooling and off-schooling, to the formal and informal, to the state and private, generally educating and vocational, to the sub-systems of educating children, the young and adults... and each of them is at the same time the system related to the won constituting elements and sub-systems.

The educational system has its form and essence. According to the form, it is an organization (a set of elements among which the labour division is clearly performed), and according to the nature it is a process manifested in adjusting the substantive, organizational, methodical, technically-technological elements, socially-economical into the scientifically-cultural development.

The educational strategy, based on the concept of life long learning unites the following educational paths:

1. The formal school education is an organized education conducted in the educational institution-school according to the prescribed program and results in socially acknowledged certificate. This form of education is open for the young and the adults as well;
2. The informal off-schooling education is the education of a more flexible organization that can be realized within the non-teaching forms, in different ways within the off-educating institutions as well. It is purposed for the adults but for children as well;
3. The self-education (self-directed or self-organized learning) is the form of education intentionally or independently organized by the person learning with or without the instructive assistance. it appears in the function of complementing the school learning but also beyond it, thus being undertaken by both the young and adults;
4. The informal education represents a specific educational path that should be counted on in the process of forwarding to the learning society. Namely, it is a spontaneous and unplanned (intentional or unintentional) learning through different life situations. The informal education is truly the life long process wherein the

attitudes, values, skills and daily experience knowledge, educational influences and sources coming from the ambient, work experience, libraries, and mass Medias are acquired. [1]

#### **4. DEVELOPMENT AND MANAGEMENT DISTINCTIVENESSES IN VOCATIONAL SCHOOLS**

Speaking about school organizations, their survival and development depend precisely on the management ability to adapt the organization to the constantly changing circumstances, because numerous, both external and internal factors constantly affect them.

The school organization development is unimaginable both without the management support on the highest level and without application of different strategies directed to long-term improvement and advancement of the total system. The management process passes through a certain number of the following *phases*: *planning* (of the results, outcomes, necessary investment, the ratio between the planned results and investments, personnel...), *organizing* (modeling of the institution's organizing structure according to the set goals), *personneling* (jobs and tasks identification, defining criteria for all the actors, selection and introduction into jobs, training and vocational improvement, professional development, motivation, system of promotion...), *control* as the regulator of the total managing process and *managing*.

*Managing* is a highly sensitive process based on the relation of the superiors and the subordinates in the system of authorizations. By managing, the superiors direct and coordinate the work of other participants so that the tasks are more efficiently executed and the set goals realized. By managing well, the headmasters of schools synergistically act in direction of the set goal realization. Thereby, the relation of the manager and the performer is very complex; it implies the communication, motivation, reality and objectiveness, their dependence for advancement and development, readiness to cooperate, transfer knowledge and information, the realization of authority... This relation is highly complex because it is burdened by the individual psycho-social characteristics of the participants in the management process.

When emphasizing the need for support of the school organizations' development by the management at the highest level, we precisely think on the director, manager who, together with the most responsible members of administration supports and directs the pedagogical and educational process, actively participating in it. The efficient development of an organization, naturally, requires much more than the passive approval by the administration.

At the most general level, the purpose of self-evaluation in school is continual enhancement of the quality of operation. The school self-evaluation starts from recording the existing state (conditions, processes and the outcomes) so that, based on the obtained results, appropriate actions would be designed that would improve the existing practice. The main purpose of the evaluation is not control, but the perception of the existing state quality, i.e.. the perception of eventual problems and developing strategies for overcoming them. Basic functions of self-evaluation (formative and summing) in the school organization are the following:

- Following the application of educational standards
- Providing support to teachers and the associates,
- Raising the level of students' educational aspirations,
- Contribution to forming and professional strengthening of specialist teams in school, continually dealing with the evaluation problem,
- Development of the culture and ethics of evaluation and self-evaluation in education, etc.

The school self-evaluation, just as any system for tracking and valuating the quality of education should be based on respecting the following principles:

Relevance, transparency, professionalism, participativeness, ethics, autonomy.

Each of the evaluative activities in school should be finalized by the report on the analysis of the obtained data and their significance, and possibly, with suggestions and propositions on how the obtained results can be used for improvement of the quality of operation of the school, meaning that the report should also contain the proposition of support measures intended for those the results are related to. Well designed criteria and indicators enable control of different phases in the process of self-evaluation, provide quality information and enable the obtaining of reliable, relevant and clear data that can be used for the school practice advancement.

#### **5. PERMANENT AND INTERDISCIPLINARY EDUCATION IN GENERAL AND ESPECIALLY OF MANAGERS'**

The knowledge management represents the process that should be evolving permanently in all segments of an organization. The most important task of management is to manage knowledge and skills, but also to create an ambient for acquiring and generating new knowledge and skills, and with it their allocation and exploitation, i.e.

innovating the existing knowledge and skills. That is why the process can be presented through six basic elements, or phases, relevant for any organization, being the following: generation of knowledge, learning, allocation, transferring, exploitation and storing the knowledge.

One of the most important questions of the knowledge management is generating and sharing the knowledge. Generating knowledge means creating knowledge in specific ambient, but also creating the ambient for emergence of the knowledge. These two things should be observed as two sides of the same whole. They interchange alternately. The management sometimes emphasizes the generating of knowledge, and the other times, the creating of favourable atmosphere of the ambient wherein the knowledge should be created.

The generation and sharing knowledge is differently operationed at different national cultures. To Japanese, knowledge is wisdom required and being necessary for provision of an optimistical perspective in the future. They are not burdened by the way knowledge is acquired. According to them, each knowledge has its own value, regardless of whether it is created through the educational systems, or through work, i.e. through life experience. The science on knowledge has ascertained that the management practice has neglected the subject generating the knowledge.

The knowledge theorists Nanaka and Takeuchi have made a clear distinction between the *explicit* and *tacit knowledge*. The explicit knowledge can be articulated into formal language, including the descriptive techniques, mathematical expressions, specifications. This form of knowledge is the dominant form in the Western philosophy and tradition. According to the authors mentioned, this form of knowledge is transferred relatively easily, through individuals, i.e. man.

The tacit knowledge is difficultly articulated in formal language, because it is personal and represents the personal property that can difficultly be formalized, due to which it has its own individual form. Its roots lie in individual value and belief of every individual. Nanaka and Takeuchi believe that the tacit knowledge is predicted as a critical component of collective human behaviour.

They claim that the tacit knowledge is an important source of Japanese competitiveness and due to it, the Westerners perceive Japanese management as an enigma, not realizing that there is actually no enigma, because Japanese are practitioners and they do what is good for their national interests, and not what others think is good. Each of the mentioned levels does not act stand-alone and independently, but in mutual connections and iterative relations. Thereby, the greater synergetic effects are accomplished, because individual knowledge is in the function of increase of efficacy of a group, but also group knowledge is in the function of increase of efficacy of an organization. Herein, completely applied in generating knowledge is the holistic-systematic approach, because what is beneficial for an individual is beneficial for the group, i.e. the organization. And vice-versa, what is harmful to the state is harmful for the organization as well, i.e. the group and an individual as well.

It is accordingly concluded that there are two main components of creating knowledge. Form is one thing and level is a different thing.

Managing some activity, first of all, means knowing and understanding the essence of the activity and then the essence of the management process. It means that managing education presupposes basic knowledge and comprehension of educational activity (provided by the sciences on education) as well as knowledge and skills of management (provided by the modern management disciplines). Therefore, the basic presupposition of successful educating management is the interdisciplinary approach in studying of the phenomena of management in education.

The second presupposition of successful education management is the critical relation toward the “recipes of successful management”. We must not strive to imitate the successful ones, but aspire to the goal the successful ones have aspired, because education is not a routine but creation of “people for people”.

The educational system management presupposes the clarity of relations between the educational conception, educational strategy and system of education. The isolated studying of the system without the conception and strategy would be unilateral and incomplete. The unity of the conception, strategy and system contributes to the complete comprehension of the educational system phenomenon and the management.

## 6. CONCLUSION

Knowledge management is the necessary precondition for accomplishing the competitive value and, we can state with certainty, the ultimatum of modern business. The knowledge management represents the unity of inter-dependent parts- people, technology and processes, i.e. of data and information that increase the information technology capacities on one hand and of creating the innovation of potential human capacities, on the other hand.

The knowledge management in education is the approach directing the activities within the educational institutions towards the increase of their results and values. The educational institutions investing in new technology without understanding the importance of human potential already existing in the organization, and necessary for sharing knowledge within it, will not justify the invested resources. Full benefit from management

for the educational institutions is reflected in improvement of the students' results, which, further on, leads to increase of the benefits existing both for the students and the professors as well, but also for the society as a whole.

The existing steps for those promoting the application of the knowledge management in education are the following:

1. To continue to emphasize the advantages of the knowledge management concept noting that having in mind the fact that the knowledge management concept in education is new and in the bud, there are many dilemmas and discrepancies apropos its application.
2. To strictly emphasize the connection between the knowledge management concept, achieved results and its goal (promotion of decision-making within the organization for the purpose of teaching process improvement).
3. To clearly differentiate and separate the knowledge management approach from mere implementation of the technological management and information systems management. Although, the technology is important and irreplaceable component of the knowledge management concept, it is not its actuator. The knowledge management actuators in education are the people that share the knowledge within the organization frame.
4. To conduct the research of the already made efforts in application of the knowledge management concept in educational institutions in order to comprehend better and encourage the organizational environments, practice and infrastructure stressing the exploitation and sharing of knowledge in the educational institutions.

To estimate the degree reached by the knowledge management practice in transforming the experience in teaching. Sharing information, team work, learning together are important factors of development in several previous decades. The crucial issue is to help students develop the critical way of thinking and communication skills that will enable them to achieve success in information wealthy and turbulent modern business ambient.

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## ORGANIZATIONAL CULTURE INFLUENCE IN MODERN BUSINESS OPERATIONS

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***Summary:** Working atmosphere and culture of modern business operations developing everyday in companies significantly influences on creation of business models of behaviour, effective business operations and motivation of employed in a working organization. Modern statistics prove that the organizational structure, depending on the established strategies and goals, as well as the value system that company is propagating within its business ambient, can have a positive or negative effect on the work performance of the employees and along with it on the effective business operations of the company. Research based on psychology have affirmed the fact that the organizational culture is developing from the need to maintain the effective working relations between members of the organization, and it can condition the total business operations of the company to take on the models of internal communication. In that way the organizational culture falls under the influence of the ambient that can be stable or turbulent, i.e. changeable, and it can also have significant effects on the sustainability of business operations. It can be the key formula of success and sustainability of modern management and business operations.*

**Key words:** organizational culture, business model of behaviour, motivation.

### 1. INTRODUCTION

The history of the term "culture" etymologically originates from the Latin word *cultus*- nursing, breeding, cultivation of fields or land.

The term *culture* has evolved in time and has received its metaphorical sense by development of civilizations and domination of one nation over the other. Depending on the social movements' dynamics within different civilizations, the term culture signifies a religious act of cultivating the cultivating areas.

Since XVI century the term "culture" derives its social-historical meaning and it relates to all social activities of a man and his close environment.

Since XVII century, in West Europe, the expression relates to development of mind and the manners' sophistication (Beneton).

Each culture includes a set of different, attributive elements determining it in relation with the other cultures, i.e. nations, societies and civilizations. These are the elements according to which tradition, customs, beliefs, attitudes, system of values, norms and rules of behaviour are differentiated.

### 2. ORGANIZATIONAL OR CORPORATE CULTURE

The organizational culture represents the acquired knowledge, experience and beliefs used by an individual in developing his/her organizational behaviour.

The concept and term organizational or corporate culture has been developed in the '30-ties of XX century from the Kurt Levin's theory of studying group dynamics- leading a group, the importance of the group decision making and forming the behaviour of the group members. The psychology of group has pointed out to constant, dynamic changes within the group and its segments, as well as on the impact of changes on the connectivity and interaction with the ambient. The conclusions derived from the theory of group dynamics have been applied to various organizations with the purpose of enhancement of managerial practice.

As a broader concept, the organizational culture can be defined as a system of suppositions, values and characteristic beliefs shared by members of one organization, and which has been constructed by perennial mutual work and experience.

Even though it is subjected to negation of changes, with particular strategy, leadership and constant changing, the culture makes an important dimension of the organizational structure and its effective business operations.

### **3. COMMUNICATION IN MODERN ORGANIZATIONAL STRUCTURE**

Neither aspect of modern business operations nor management can be imagined without communication.

For the efficacy of an organization the good communication is a necessity, and it is often mentioned as the key factor of corporate efficacy. Without the communication, the organization, i.e. the organizational culture does not exist either.

The employers estimate that precisely the communicational skills (written and oral) are more important than all the other factors influencing on the efficient business operations (such as, for example, work experience, gender, personal character features, etc.)

By way of different communication processes, non-verbal symbols, symbolic corporate language and gesticulation we can persuade or assure another person to change its attitudes, opinions and behaviours in the direction that is at the moment more beneficial and desirable for us.

#### **3.1. Language**

The organizational culture characteristics can be a set of formal and informal norms and standards of one organization, adoptive for all individuals in order that they adjust to the ambient and events.

The informal rules, as well as the formal ones in the form of internal acts, procedures and business operations policies, have resulted out of the common experience of the employed in the organization.

The language, as a symbolic element of every organizational ambient depends on the aspects of business operations and activities the organization is dealing with. The company's language differs from and depends on the technologies, i.e. work process, as well on the goal the company is striving for. Business, everyday communication and behavioral standards determine the formal way of communication as well, the usage of terminological concepts, metaphors expressions and phrases specific and comprehensible to each individual in a specific company. A special language is developed in organizations, as the product of mutual actions, exchange of knowledge and experience. Words and linguistic symbols can be a significant instrument influencing on the variety of the organizational structure.

#### **3.2. The need for socialization**

Besides language, i.e. verbal and non-verbal business communication, each man as a part of a system, primarily of the natural order has the need for society and socialization. The need to be with other people, to exchange information with them and share his/her own experience, can be defined as the first level of business integration and approaching the norms prescribed by a certain organizational culture.

We have to consider the social integration of each individual from the point of view of human nature, and not as the starting aspect of manipulating its attitudes, not in order to decrease the uncertainty or influence so that we could obtain the feed back business information. Every man is a unique human being with qualities that wishes to talk and be a part of micro and macro community.

### **4. ORGANIZATIONAL CULTURE TYPES**

The fundamental models, i.e. types of the organizational cultures are generalized and varied. Considering that neither one identical culture nor organizational arrangement exists, the division by types of the organizational cultures can be made by classification of frequent characteristics appearing in different cultures. According to the classification there are four types of culture:

1. *The culture of power*- an organization is the instrument for accomplishing the goal. The basic characteristic of this culture is the orientation towards the leader. The leader's source of power is centralized management over all resources (money, information...). To the leader, the employees are the key factor of anything that is happening in the organization. An individual in this culture identifies itself with the leader in order to gain power.

2. *Culture of roles*- the bureaucratic culture. What the leader represents in the culture of power, the culture of roles propagates the compliance to the standards and norms. Its advantage is reliability and efficiency, and its disadvantage is decreased adjustability, rigidity and lack of initiative.
3. *The culture of tasks*- it is the ideal of success and achievements at the highest level. This culture is also called the culture of achievements by many. The characteristics of an individual are appreciated, such as the adjustability, flexibility, creativity and independence. The deficiency of this type of culture lies in excessive dependence on people and their qualities.
4. *The culture of support*- it is rarely attended in companies. The basic goal is that an organization exists in order to satisfy the individual goals and interests of the individuals in the organization. In the centre of it is the individual and its interests, whereas the organization's goals are neglected. This precisely is the basic deficiency of this kind of organizational culture.

## 5. ORGANIZATIONAL CULTURE GENESIS AND FUNCTIONS

The organizational culture is mainly created and formed unconsciously. It is based on primal values and philosophy of the founder of organization, individual or group of individuals having the capital, ideas and capability of leading a company.

The values that organization possesses and tends to can often be differentiated from the values in everyday practice and behaviour of people within it.

Each company strives for having its own, specific organizational culture, based and formed on perennial mutual effort to solve the problems and respond to the challenges of the business operations. By the organizational structure growth and development, new models of business operations, communication, thinking and behaviour are established.

Forming the new culture, i.e. enhancement of the already existing version is developed by the leader, i.e. professional manager. The employees form new culture, accept it or learn it. General systems of values, behaviour manners and characteristics accepted by all members in the organization become defined. The generally accepted systems of values are named codices of business operations and behaviour in the internal and external organization.

### 5.1. Organizational climate

The term organizational climate is often terminologically mixed up with the term organizational culture. The organizational climate would represent the working atmosphere created by the employees in their everyday communication, and it is closely related to the organizational culture creation. The climate is a narrower concept defining the organizational culture of behaviour. The culture is made of the features of a company as a whole, whereas the climate determines the internal relations of the employees, such as the attitudes, feelings, role in the management process, salary policy, etc.

The organizational climate is the way in which the employees see, feel and accept the culture that has been created and which is formed in their company.

The organizational climate is created by the managers and the top managers. The management should create such an atmosphere so that the employees are identified by the leader's behaviour, to have a feeling of belonging to the organization, of security and loyalty to the company. The leaders create the leaders and motivate the employees to high performance, consciously creating the unique image of the company.

### 5.2. Organizational culture functions

Comprehending and accepting the organizational culture has an integration role for all members within an organization. The individual, integrated in the organization, by way of the norms and standards, contributes to the preservation of the organizational structure and a greater effectiveness of the organizational culture.

If the organizational culture includes in its contents the normative, generally accepted postulates, it also has a controlling character. Therefore, according to Shain, the culture has a function of external adaptation and internal integration.

The effective common work, including three aspects of the internal integration can assist the managers to define the status, power and collective awareness of their employees.

The internal integration and the manner in which it is conducted, provides answers to the key questions that are of great significance for the organization and the organizational culture, because the organization is not just a work place, but it is also the place where most of people spend the greatest part of their time, building new friendships, personal status, identity and stability.



## **6. ORGANIZATIONAL CULTURE MAINTAINING AND CHANGES**

The methods comprising the organizational culture maintenance, in the sense of its durability in a certain temporal continuity, are the processes and behaviours to which the managers and teams pay attention. Those are the most frequently noticed events that have marked a certain working process. By suggesting, commenting and dealing with the certain events, the employees are informed of the information on what is important for the company and what is expected of them as the individuals belonging to the organizational system as a whole.

The main representative and a role model for creating and maintaining the organizational culture is the manager. By his/her manner of conduct and behaviour, by the interaction with the subordinates, the manager transfers to the employees the model of acceptable behaviour.

The influence on changing and maintaining the culture is also facing and managing crisis and incidents. The crisis is a destructive appearance due to the attraction and repulsion happening in specific systematic arrangement, and it consequently creates the incidents and non-effective working relations and organizational climate. The manner in which the manager is going to face the crisis moments can powerfully influence on the maintenance of the existing organizational culture or lead to creation of new values and postulates that will change in a certain way the organizational culture as well.

### **6.1. Sources of the organizational changes**

The organizational culture is difficult to define and determine its clear contours related to the other elements making the systematic organizational whole. The constancy of turbulent changes dictates the trajectory by which certain culture, sustainability and compliance will be moving, with both the internal and external ambient.

Having in mind that it is in human nature not to accept changes lightly; the organizational changes are also complex and unattractive appearance for the management organization and the company's owner. The attempt to effect the changes and to manage them has lead many companies to the verge of doom or bankruptcy.

The most frequent sources of organizational changes are the market's competitiveness, the demands for new products and for products of better quality, introduction of new technologies as the instrument for increase of the organization's productivity, the internal ambient, crisis and unorganized management, i.e. company. The sources of changes play a vital role in the business progress and maintaining the competitiveness. If there were no competition, there would not be the organizational changes either.

### **6.2. Traditional activities and customs of organizational culture**

The stamp that is the constituent part of diversity of each international culture is precisely the language, tradition and rituals on which every intercultural group is founded on.

Customs, traditional activities such as celebrations and ceremonies in the organization also have a powerful cultural influence and meaning. As the part of adjustment and internal integration, they can become and important element in creating values and new styles of behaviour within the organization.

Many anecdotes become legends transferred on future organizational cultures as well, emphasizing the important aspects of the past as the constituent part of the progressive present time.

The system of recruitment, selection, rewarding, promotion, allocation and dismissal from the organization is one of the general criteria for maintaining the organizational culture and its values. By means of these systems, rewarded, i.e. publicly rejected are the attitudes and behaviours of individuals within a group or subculture, which are (in) acceptable for the existing organizational culture.

### **6.3. Human resources sector**

The key subject concerned with the organizational culture sustainability is the Human Resources Sector. It conducts, in cooperation with the top management, all systematic changes. As the organizational unit taking care on the human potential state, as the most valuable resource of the organization, its professional task is to make the analysis of the cultural values.

The possibility of advancement is a stimulus and strong motivation to many, to stay integrated within the company they work in. Various programs of educational character, as well as the planned management on the individuals careers is the key factor of gaining loyalty and feeling of belonging to the organizational culture and its ambient.

The task of human resources manager, by means of realizing the system of rewarding the outputs and performances, is to provide that the organization is a pleasant place for people to work in, wherein the organizational climate will contribute to high motivation for progress, both individual and organizational as well.

## 7. CONCLUSION

Working atmosphere and culture of business operations in a company significantly influences on creation of business models of behaviour, effective business operations and motivation of employed in the working organization.

The impact of the organizational culture, depending on the set, established strategies and goals, as well as the system of values propagated by the company, can be positive or negative on the company's business operations. Considering that the culture is developing from the need to maintain the effective working relations between members of the organization, it can condition the total business operations of the company to take on the models of internal communication. In that way, the organizational culture falls under the influence of the ambient that can be stable or turbulent, i.e. changeable, and it can also have significant effects on the sustainability of business operations.

It can be "the secret formula of success" or "the silent killer" (N. Janićijević).

Communication has an important function in conducting the strategies for changing the organizational culture. The communication is the only one influencing on changing and adoption of new values and forms of behaviour of an individual within the organization. It can be formal, informal, direct, indirect, symbolic, written, oral ... etc. The direct communication can be a powerful instrument of persuasion into the necessary changes of cultural values. One of the instruments for transfer of information significantly influencing on the employees consciousness are anecdotes, stories, jargon. In that way, the desirable values are substantiated in the figurative meaning, in form of critics, mocking and negation of the undesirable behaviour and attitudes.

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## MANAGEMENT OF THE RISK AND INSURANCE

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Obrtnik, Doboj, BOSNIA AND HERZEGOVINA

**Summary:** *The paper analyzes the key issues of risk management and insurance institutions from the risk. Defined the concept of risk management, are the most important goals of this process, there are the main characteristics and advantages and disadvantages of three basic methods of risk management. Special emphasis was put on the insurance as one of the most frequently used approach to risk management. Due to its features, security has significant advantages compared to other methods of risk management, especially when it comes to protection from risks that are not frequent, but large potential damages. At the end of the displayed matrix for decision-making in the selection of adequate methods of risk management.*

**Key words:** risk, risk management, insurance, risk manager.

### 1. INTRODUCTION

In turbulent conditions of modern world market, risk becomes inseparable and very often unpredictable component of economic activities, so management of the company must be trained to deal with the turbulence in the safest way and efficiently use the possible chances that occur by sudden changes in outer factors. Making management possible to annul negative effects of sudden and unexpected risks, in other words to adequately manage risks, presents the most important and most necessary segment of the total management of the company and because of that it should get the attention, because the failures in this area can often seriously endanger the existence of the company.

Unexpected losses can negatively influence on credit rating and respect of the management and the company itself or corporation.

### 2. RISK MANAGEMENT

Managing of the risk or risk management can be defined in many ways. In one definition it is 'a systematic process of managing exposure of business organization to risk to fulfill its goals in a way that is consistent to public interest, safety of the people, factors of natural environment and the law' [4, pp. 16]. This definition shows that modern risk management as a process does not take care only about the profit but also about wider social consequences of fitting the company in the environment. According to the other author, risk management is 'a systematic process of identification and evaluation of pure risks under which the company is or individual and as a selection and implementation of adequate method for risk management' [4, pp. 16]. From the stated definitions we see that basic functions of risk managements are: systematic and constant research of exposure to risk of loss, valuing of nature, frequency, strength and potential influence of loss on organization, as well as planning and organization of control of risk and technics of financing of risk to minimize the influence of loss on organization efficiently.

#### 2.1. The goals of risk management

As a general goal, from which the others come from, is a maximization of income value of the company, which is in function of future net money flow. The presence of the risk itself, or the possibility that economically damaging event that will decrease income will occur, decreases income value. This decrease is caused by

presence of risk called *the expense risk*. The expense risk incorporates all losses connected for the realization of the damaging event and is equal to the difference between income value without risk and income value with risk. From the stated, we conclude that risk management come down to minimizing of risk expenses and in that way, maximizing income value of the company [1, pp. 30-37].

Beside this general goal there are numerous concrete goals:

- sustaining the company on the market,
- continuing the business
- stability of income
- constant growth and,
- social responsibility.

## **2.2. Organization and process of risk management**

In organizational structure, the Department for risk management can have a different position depending on the size of the company or type of risk to which the business is exposed. In bigger organizations this department is a special sector, which is responsible for risk management and the chief is a risk manager. In some companies this sector belongs to sector of finances, because both of them try to protect the asset of the company from damage and find the best way to finance the loss. No matter what position it has in the organization, this department must not be isolated, but must keep communication with other sectors and involve them in its work. So, for example, sector of finances provides important information of the influence of possible damages on money flow or profit, and application of control quality in the sector of production decreases the risk for responsibility for the damage to buyers for bad products.

Process of risk management has 5 phases :

1. identification of all risks;
2. evaluation of the size of potential damage and frequency;
3. choice of adequate method for risk management;
4. implementation of chosen method and
5. control of the results of applied method of risk management.

## **2.3. Identification of risks and evaluation of the size of potential damage and frequency**

The first phase in the process of risk management is determination and defining of potential damages. The sources of information, that managers use while identifying risk are financial reports, data about previous damages and analysis of risk and physical inspection of the company. Since risks are a very heterogeneous category and differ, after identification the manager has to classify them according to the kind of damage they cause (risk to loss asset of the company, risk to decrease the income, risk of responsibility, risk of theft and so on).

After the potential damages were identified, the next step of the risk management refers to the measurement of the influence that some risks have to the business of the company, in other words, the size and frequency of the damage. The frequency of the damage is expected number of negative economic events that will happen in observed time period (expected risks), while size of the damages, refers to expected greatness of the damage. Risk manager evaluates the frequency and size of the damage for every kind of risk, and according to that he makes a list of risk according to their relative importance.

At the top of the list of risks are those whose sanation has catastrophic consequences and can very often lead to bankruptcy of the company, so management of the company pays special attention of them, while risks with small influence to the company are usually easily sanated from the fund that is provided for that kind of risk, if the evaluation of the choice of the method for protection was accurate. For example, if certain damage regularly occurs, than company can treat it as a regular expence, while for damages that occur rarely, they will approach that comprises financial expense from current business.

When evaluating risk, one should specially have in mind, that size has bigger influence than frequency, because great damager with catastrophic consequences can stop the work of the company. That is the reason why risk management must bear in mind all damages that certain even can cause. In analysis of the size of damage a difference is made between *the greatest possible damage and the greatest probable damage*. Let's assume that risk management is analyzing how big the damage will be if the company is damaged in the flood. In that case, he estimates that, if the flood completely destroys the company the total expenses for the reparation will be 10 million \$ and that is the highest possible damage. The highest probable damage is estimated to 8 million \$ and management takes it mostly in consideration , because that the flood that causes the highest possible damage is a very rare occurance and occurs once in 50 [1].

### 3. METHODS OF RISK MANAGEMENT

When identification and evaluation of the risk is done successfully, company goes on the third and the most important step and that is the choice of adequate method or combination of more methods to manage the risk. Methods that companies use mostly to protect themselves from risk can be placed in three groups [4]:

1. method of damage control;
2. method of damage financing and
3. method of intern reduction of risk.

#### 3.1. Method of damage control

This method comprises actions that will decrease the number and scope of potential damages. Control damage is often mixes with the risk control, however there is an important difference between actions taken in order to decrease expected damages and action to decrease presence of the risk.

##### *a) Avoidance of the risk*

With this approach, the company decreases the exposure of the risk by decreasing the level of risky activities it is taking. To be more precise, the company avoids to generally start doing certain risky activity or decides to drop out of some risky activity that existed so far. The advantage of this approach is that danger of occurrence of economically damaging event disappears or decreases. As one of the disadvantage is lack of possibility to avoid the risks to which company is exposed, for example, the death of important people in the company, so this method is used only in certain cases. The second disadvantage is that risky activities, as a rule, are more profitable so oportuent expenses of the usage of this method are very high.

##### *b) Prevention of damage*

Approach of prevention of damage comprises activities of the company that decrease frequency and size of damages. In difference to approach of risk avoidance, in this case the company is not trying to avoid exposure to risk, but to change certain risky activity so that it is safer and more acceptable for the company. With this approach we differ preventive and repressive measures. Preventive measures are taken before the damaging activity happens and their aim is to stop and remove cause that causes loss. These measures decrease frequency of damage.

The advantage of approach of prevention of damage is that occurrence of damaging event, beside direct, causes indirect expenses that can be higher than direct.

#### 3.2. Method of financing of damage

The basic way to protect of damage, with method of financing damage, is making funds from which the damages will be covered. Here we have three approaches: self-help, uninsured trasfer of risk and insurance. The stated approaches differ in the way they generate funds for the coverage of the damage. Keeping damage and uninsured transfer of risk will be explained later, while the insurance as approach of risk management will be presented in the following chapter.

*a) Keeping the damage.* Keeping the damage is a situation where the company keeps the obligation to take only certain risks. With this approach, the company generates its funds for damage coverage, while with trasfer of risk (insurance also), risk is transferred to the other side in the contract. It is important to make a difference between active and passive self-help. Active keeping of damage refers to the case when management of the company is aware of the risk and after the analysis makes a decision that the best thing for the company is to pay for the risk itself. With passive keeping of damage, risk is kept because of ignorance or incapable management. This situation is not desirable and can be dangerous if it is a risk with catastrophic consequence for the company. održavanje šteta predstavlja situaciju u kojoj preduzeće zadržava obavezu da samo snosi određene rizike.

In order to keep damage as an approach of risk management these conditions have to be fulfilled:

- **predictability of the damages** – damages should be common thing, because in that case the risk manager can, with great precision, predict the movements of damages in following period and treat them as business losses which are compensated from business (regular) income.
- **size of damage** – damage must not be great, that is, it can not have catastrophic consequences for the company, because in that case the company will not be able to cover the loss itself.
- **existence of other methods for risk management** – in some cases insurance companies do not give protection from certain risks, other transfers of risk are not available, while control of damage gives just partial decrease of frequency and size of losses, so company can not do anything else except keep the risk.

If the company decides to keep the damages, first it must determine in money how big is the damage that will be kept. There are several ways to determine this amount, but the most exceptable is the one that level of preservance of the damage defines as maximal amount of damage that company can absorb, and at the same

time not endanger capability to make money and it is usually 5% of annual income before taxes [4]. When economically damaging event occurs, risk manager makes a decision from which sources of the company it will be compensated. If they are frequent damages, that do not cause great losses, company considers them as regular expenses and compensates from regular income. These damages are: small thefts in retail facilities, damage of products that can not last etc. For bigger damages long-term reserves are activated. Long-term reserves are category from accountance and represent current separation of financial means for the coverage of risks that will be realized in the future. In this way, damages are covered on the bases of lost court cases, fines, penalties etc. The third source of means are credits taken from the banks. Although, in first glance, the company does not use its means to cover damage and this method of payment is considered as self-help because credit with the interest have to be paid back in determined time. In extreme case, damage is so big that the company is forced to sell parts of the asset to cover it.

Special way to keep the damages are insurance companies. They are founded by a large corporation or more associated small companies, in order to provide insurance of all risks to which a company is exposed. In the world such insurance companies are usually founded in off-shore zones (Barbados, etc.). The advantages of foundation of this kind of insurance companies are these:

- sometimes it happens that commercial insurance companies do not issue insurance policies for certain kinds of risks, and that is why the basic firm founds captive insurance company and in that way gets insurance;
- captive insurance company can make profit, that increases the total profit of the corporation in case it does business with other companies;
- captive insurance company has easier approach to re-insurance;

In the USA since 1992. premiums that have been paid to insurance company that companies have are taken out of taxes on income, if captive does 30% of business with other companies. Before he decides for a technic of self-help, the manager has to see all its advantages and disadvantages.

The advantages of this approach are:

- savings which are made since very often the real damages are less than the premiums company would pay to insurance company;
- lower expenses of protection of certain risks of self-help, because when services of insurance companies are used with usual payments there are provisions to the agents of insurance and profit of insurance companies;
- more efficient conducting of program of prevention of damage because when company pays for a damage itself, it is interested to stop occurrence of damage;
- positive influence of money flows, since the company, untill damage is made, can freely use money, which would be blocked with insurance companies.

This approach has important disadvantages:

- sometimes the amount of real damage, that company pays, is higher than premium of insurance companies, so in that case, the company is at loss;
- premiums paid to insured person are taken off taxed income, while in case of self-help, only the amount of real damages is taken off tax basis, so tax on income will be much higher.

**b) Uninsured transfer of risk.** Transfer of risk comprises activities which transfer of risk to the other legal or physical person. Since insurance, as the most common and most important technic of transfer of risk is specially studied, there is a term of uninsured transfer that comprises make contracts and hadging strategy as additional technics in trasfer of risk.

Risk management uses different kinds of contracts, in order to put responsibility for a certain risk to the other side in the contract. For example, in contract with the firm that has to build a new factory for a company, there is usually a additional statement of exclusion, that is, that for all the damages made on the facility while it is being built, the constructor is responsible.

Although up to now, we have discussed methods and approaches that are protecting from purely business risks, here we will mention **hedging** as a method for transfer of price, currency and interest risk. Hedging strategy is usage of financial derivatives as an aim to minimize influences of market risks on business of the company. In conditions of inflatory escalation, flexible currency courses and variable interest rates – market risks are dominant in modern business surrounding. Companies and other business organizations are doing distribution and re-location of these risks by usage of latest financial instruments such as: futures and forward contracts, swaps and options.

Advantages of the method of uninsured transfer are:

- possibility to transfer risk, that can not be insured in insurance company;
- transfer of risk usually costs less than insurance;
- potential damage can be transfered to someone who is in a better position to conduct a program of prevention of damage.

The disadvantages of this approach are:

- case when legal or physical person, to which a risk is transferd is not able to pay for the damage and than responsibility is transfered to person who did the transfer;

- problem is also in different interpretations of the same contract because of unclear legal terminology.

### 3.3. Method of intern reduction of risk

The company can internally decrease the exposure to risk through diversification or investments in information.

**a) Diversification.** Relying on one product in conditions of constant changes in needs and tastes of the consumers is a risk that can handle only companies with specific position of the market. Production program of diversified company comprises products that by technological basis, market usage and way of sale are very different, so they in that way decrease risk which comes from constant changes in market, technical and social factors. The choice of diversification as a method for decrease of the risk asks for complex analysis of many factors that sometimes have opposite action on the position of the company. It is necessary to balance the advantages that are received according to flexibility of diversified companies in relation to the victims that come from the decrease of coherency of production assortment.

**b) Investing in informatin.** Second approach to intern reduction of risk is investing in information. By usage of this approach we get precise and accurate predictions of expected damages, so the company can take preventive measures of protection on time. The modern information systems enable safe prognosis of frequencies and size of potential damages connected for purely business risks. Big and middle companies usually organize predictions individually of key variables that influence business, while small companies turn to specialized firms.

## 4. INSURANCE AS AN APPROACH TO RISK MANAGEMENT

Insurance is institution whose aim is to pay for the damage that is made by distructing forces in society and nature. It is associating of those who are exposed of these dangers, in order to survive damage together that will hit only some of them. Because of its specific characteristics, insurance has many advantages in relation to other methods of risk management, especially when it come to protection of the risks which are not frequent, but potential damages are great.

According to American association for insurance and risk, insurance is defined as associating of people who are exposed to certain risk, whose realization does not depend on their will, transferring that risk to insured person who agrees to pay to these people in case the insured risk realizes. By analysis of previous definition there are three main characteristics of every kind of insurance, by which the insurance is different than other methods for risk management and they are [5, pp. 67]:

- **Forming association of risk** is the essence of insurance. Physical and legal people are associated and in that way share the burden of risk, that is, jointly secure from the damaging consequences of the unpredicted events. In ideal case, the insurance company gathers a great number of similar, but not necessarily identical cases exposed to certain risk.
- **Compensation in case of realization of risk** is the second characteristic of insurance. The obligation of the one who gives insurance is when economically damaging event happens, to give compensation which is paying insured sum of money.
- **Compensation of totally accidental damages** means that the obligation of the insurance company stops if insured person caused damage by his will.

However, it is not possible totally remove the influence of human will, because numerous risks occur because of the behaviour of insured people. It is important to determine that realization of damaging even was not caused totally by the will of insured people, without accidents, because in that case the insurance will not be valid. From the point of view of insured people risk should fulfill these conditions to be covered by insurance[2]:

- possibility of occurance of the event – it is not possible to insure unexisting facility or disease that does not exist any more;
- incertainty of occurance of certain event – event that will surely happen or whose fulfillment in happening and can not be covered by insurance;
- economical damage of the event – event is not economical nature and can not be risk in insurance;
- independance of occurance of the event of the will of insured person or some other interested person;
- existance of dispersion of risk – in order for individual to take even a small part of risk there should be great difference between the total number of community of risks and memebbers hit by that risk, event that at the same time hit great many people and facilities (wars, natural damages...) which are usually not insured;
- frequency of risk – if risk is rarely occuring, the company does not feel the need to insure itself from such risk, certain frequency of risk is necessary to determine the probability of its occurence;
- risk must be allowed by law – insurance only guarantees for those event which the law allows and that can be considered moral and socially exceptable.

#### 4.1. Risk management and insurance

Terms insurance and risk management, should not be mixed, as it is often done, because risk management is a wider concept that comprises identification and analysis of all risks that are threatening the company, and that the choice of proper method for the treatment of those risks, while insurance is just one of the approaches for financing the damages, that manager can choose as a way to protect from a certain risk. When decision is made to use insurance, risk manager takes these steps[3]:

- choice of risks for which it will be insured;
- choice of insurance company;
- making contract of insurance;
- introduction employees in the company with the terms of insurance;
- periodical revision of programs of insurance.

##### 4.1.1. Choice of risks that will be insured

Because of numerous advantages to other methods for company it would be the safest to insure all risks that satisfy the stated conditions. However, because of limited means, such a solution is not rational and not reachable for most of the companies. Because of that, risk manager having in mind the potential size and frequency of damages, insures only risks with great influence on business. According to the importance of the risk they comprise, there is a difference between obligatory, desirable and accesible.

*Obligatory insurance* comprises risks that must be insured by law (obligatory insurance of workers in case of injury at work) as well as risks with catastrophic consequences that endanger survival of the company.

*In desirable insurance* we put risks that can cause serious financial difficulties, but do not lead to bankruptcy of the company.

*Accesible insurance* comprises those risks that have little influence on business.

Risk manager in this phase has to make a decision of the sum of insurance. The sum of insurance is the amount on which some thing is insured and according to it the premium of insurance is determined. Usually the sum of insurance is equal to value of insured thing. However, sometimes risk manager decides to combine methods of insurance and self-help, so the sum of insurance is lower than the value of insured thing. In this case, the insurance company does not involve in compensation of damage untill real damage does not go over the amount that the company decided to cover itself. The aim of keeping one part of risk are savings on premiums.

**Choice of insurer.** When risk manager is deciding about insurance company he starts with the following criteria – financial position of insurer, services of protection of risk that he provides and height of premium. Risk managers lean on publications where insurance companies are ranked according to profitability, liquidity etc. when he determines financial position. The services of insurance companies like identification and estimation of the damage have great influence on the choice of the company. The height of premium is also important factor because the company tries to maximize benefits and minimize expenses of insurance.

**Making contracts about insurance.** When insurer is chosen risk manager goes on the next phase, and that is making contract about insurance. The contract about insurance is policy and general and individual conditions of insurance. It is very important that two sides come to agreement about basic elements of contract, object of insurance, risk comprised by insurance and lasting of insurance. It is considered that contract is completed when both sides sign policy of insurance.

**Introduction of employees in the company with the conditions of insurance.** When policy of insurance is signed, risk manager tells it to the management of the company and other employees in the company. It is very important that all employees are introduced with the fact that damage caused by lack of attention or caused on purpose is not damage covered by insurance. Also, it is necessary to inform employees how soon they have to report damage to insurer and in what way are necessary evidence of damage presented.

**Periodical revision of program of insurance.** Risk managers do periodical evaluation of the whole process of insurance. That means that they do analysis of risk comprised by insurance again, evaluation of the quality of services that insurer gives, for example if premiums are paid out on time etc.

#### 5. CHOICE OF ADEQUATE METHOD OF RISK MANAGEMENT

When we were introduced to characteristics of different methods for risk management, we should see the way risk manager makes a decision about the choice of method that is the best for the treatment of a certain risk. The most common criteria for the choice of certain method of risk management is frequency and size of potential damages, and risk manager makes a decision by analysis of matrix of frequency and size of damage (table 1) [4].



**Table 1:** Matrix of frequency and size of damages

Number	Frequency of damage	Size of damage	Method
1.	Low	small	Self-help
2.	High	Small	Prevention of damage
3.	Low	Big	Insurance
4.	high	Big	Avoiding the risk

In the first case it is about risks that have small influence on the company, because they are rare, and when they occur damage is not big. Companies usually decide to keep these risks.

The second kind of risk is more serious because those are small damages that are usually happening, so the company chooses the method to decrease frequency of damages. The example for this damage are physical damages of company cars. Adequate method for risk management for the second group is prevention of damages, which will decrease frequency of damages. Besides prevention self-help is used, because these damages are easier to predict so they can be compensated for from the regular income of the company.

For the protection from the third group of risks insurance is used, because potential damages are big so company can not handle them on its own, and since they are not frequent – premiums which are paid to insurer are economically acceptable for the company. Examples are risks of thefts, responsibility etc.

The fourth and most serious group of risk company is trying to avoid. For example, if the area where the company wants to build a factory is famous for common catastrophic floods, the most rational thing is to avoid building on such field.

## CONCLUSION

Insurance as an institution whose main activity is to compensate damage for users of the services which occur because of expected and unexpected actions of destroying forces in society and nature. Basically, insurance is association of those who can be exposed to the same dangers, with an aim that it should though solidarity take damage that will hit only some of them. Because of its specific characteristics, insurance has important advantages in relation to other methods for risk management, especially when it comes to protection of risks which are not frequent, but potential damage is great.

Terms insurance and risk management should not be mixed since risk management is a wider concept that comprises identification and analysis of all risks that threaten the company, choice of certain method for a certain action, while insurance is only one of approaches to finance damages, that manager can choose in order to protect from certain risk.

In conditions of inflatory escalation, flexible currency courses and variable interest rates – market risks are becoming dominant in modern business surrounding.

When evaluating a risk, one should have in mind, that size of the damage has more influence than frequency of damage, because great damages with catastrophic consequences can stop the company from business. Because of these reasons management of insurance must consider all damages that some event can cause.

Because of numerous advantages in relation to other methods for the company it would be the safest to insure all the risks that satisfy the mentioned conditions. However, because it is not capable to adequately plan damages, no level of planned means can with safety cover unexpected losses of members of users of insurance. Because of that, such a solution is irrational and not accessible for the most companies. So, risk manager having in mind a potential size and frequency of damages, insures only risks with great influence to business.

As the most general aim, from which all the other come from, specific aims of risk management are maximalization of income value of the company that is in function of future net money flow. The existence of risk, of possibility of occurrence of economically damaging event that will decrease cash flow, decreases income value.

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## **SIGNIFICANCE AND POWER OF LISTENING IN MODERN BUSINESS OPERATIONS**

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**Summary:** Researches show that people spend over 70 percent of the time of being awake included into some of the communicational activities: listening, reading, speaking or writing. We spend more than a half of that time listening- even 53 percent. Managers spend even 70 percent of the daily activities listening and the higher position of the manager- the greater percentage. However, the same research show that people actually hear only about 30 percent of what they listen. Having in mind this information, the importance of listening is clear and exceptional in modern business operations and decision-making. Active listening requires concentration and interest in the converser as well in the subject of discussion. It is a key segment of successful communication and therewith of interpersonal relations as well. The absence of good listening mainly leads to the greatest problems in business operations- problems among people. The ability to listen carefully and to make decisions based on the obtained information is a complex mental activity acquired by experience, self-control and frequent practice of hearing out the converser. Therefore, the art of listening is a communicational skill and habit, i.e. something that is possible and necessary to be adopted, but it takes time and practice, and modern managers are people that certainly should master the skill.

**Key words:** communication, listening, manager.

### **1. COMMUNICATION**

Everyone communicate and, more importantly- everyone is convinced that they know to communicate and that they know what communication is. However, being a good communicator is not an inborn characteristic, it is a learning characteristic. Expressing one's own idea, active listening and transfer of message are just some of the qualities that should characterize a successful communicator. And what is communication actually? There are numerous definitions of communication; however, for the occasion it is best to say that communication is a process wherein people send and receive verbal and non-verbal messages in order to understand others and in order to be understood. People communicate using linguistic and non-linguistic signs, by their whole appearance, posture and behaviour.

### **2. LISTENING**

It is easy to find people that talk for hours about themselves and their topics, and it is much more difficult in finding those that are ready, willing or have time to listen to others. The art of listening implies many things: restraining from yawning when one is yawny; not looking constantly around oneself; maximally trying not to interrupt the speaker nor should one overdo by nodding in order to show that attention is paid to the speaker's words, one should not each moment interpose "Certainly!", "I think so!", because it often is actually a sign that the converser isn't listening. Most people believe that listening is something that is implied by itself, probably because the ability of communication is most frequently related to the ability of speaking; although for a good communication it is equally important to know to listen and to speak well.

Listening as the communicational skill includes directing attention, interpreting and remembering of what we have actually heard. And hearing and listening is certainly not the same thing! When we say that we hear something, it is related to the physiological process, i.e. receiving sound stimuli that are transferred to brain

interpreting them, whereas listening is related to a mental process. Thus, we come to the definition- listening actively means listening focused, responsibly, with empathy and acceptance of the other person. Listening can be shown as a process of four steps [11]:

- Receiving the sound information
- Providing meaning to the information
- Making decision on what we think/feel about the information
- Responding to what we heard.

## **2.1. Law on lower resistance**

People, according to the law on the lowest resistance, when they can choose among several possibilities always choose the one requiring less effort. If we apply the law on listening, we conclude that people prefer messages requiring less effort. Numerous times have each one of us experienced that someone we are talking to is listening to us and at the same time does not completely hear of what we want to say. For most people listening is a passive activity and very often the confusion regarding the words hearing and listening is present. The researches show that people actually hear about 30% percent of what they listen. Active listening requires concentration, sympathetic feelings towards and interest in the converser as well in the subject of discussion. Active listening is an important part of communication and therewith of interpersonal relations as well. We are aware that when we converse with people, especially those dear and important to us, it is necessary to listen and at the same time hear as well what the other party wants to say, we even feel dissatisfied ourselves when it is lacking [12]. However, very often in lifetime we show the opposite: Unwillingness to hear each other out. A question is posed: why is listening but also hearing the other person so difficult? The problem in interpersonal relations often represents not checking what we have said and what we have heard. People often discuss on what they have said and persuade the other that they have exactly said it and they do not understand how it is possible that anyone has understood it in a different manner. When we are aware of the way in which we are listening and comprehending, then we will more easily bear misunderstandings and correct the misapprehension. When hungry, our ear will become sensitive to all the words symbolizing food; when we are sad we will experience the funniest comedy as a tragedy; when we are happy and in a good mood, any tragedy will appear less arduous. Thus, it is essential that while we are listening, we should actively participate and check what we have heard. That is what should be done and we should be aware that while listening to some other person, we are actually listening to him through our own life experience, beliefs, notion about life, prejudices, convictions and beliefs. In other words, listening is always coloured by the listener's personality. Practice shows that when three listeners are asked to listen to a person's story and then reproduced, mostly three different answers are obtained. It points to a fact that the objective listening does not exist, but that it is always subjective. [13]. In order to successfully communicate, and not behave in line of lower resistance, one should always have in mind and mold the communication so that it is clear and comprehensible, whereas while listening one should take care and not avoid complex and important messages.

## **2.2. Necessity of listening in modern business operations**

The conditions posed before a successful man in modern business operations are more and more demanding, and the emphasis is put on the human factor. It is expected from manager to make correct business decisions. In such conditions, for the managers faced with constant making of different decisions, the power of listening is highly important and often crucial as well. The managing personnel have to be aware of the fact that all information reaching them, and the manner in which they are coming to them, influence the decision-making. Some of the information can be obtained by reading mails, letters, notes, reports and other business documents; however, modern practice proves that there are much more information influencing on the business decision, and they come from or can stem out of the way of listening. Thus it is important that the person making decisions truly listens all sorts of uttered information. For the purpose of better communication, interpersonal relations and making the right managerial decisions, in each company it is important that the capabilities of listening well are practiced at all levels and positions.

If managers do not listen carefully, the companies very fast show the results of poor projects, face the unsatisfied workers and bad public relations, and therewith the company faces lower incomes. For example, the extent the listening process' reliability is well shown by the results of research of a corporation conducted in 100 organizations. The oral message of one manager reaches the other with 90% accuracy, when the member of the Managing Board speaks to the vice-president 67% of the messages are transferred correctly; when the vice-manager speaks to the head of the department it decreases to 56% and that is how it comes to the workers that exactly hear only 20% of what the boss tells them. Is there anything else to say on the efficiency of listening, except that the logical question is posed how do such organizations function at all [14]?

### **3. TYPES LISTENING**

There are more types of listening and one of them is passive listening which, in principle, does not require much listening, it is a rather more listening "with half of the ear", i.e. we hear that someone at the back of our thoughts is talking about something, while we interpose some of "a-ha" and "yes" from time to time. Herewith we are not trying to persuade someone that we are listening even with our body language. Pseudo listening is when we are persuading our converser that we are listening to him/her by using our body language (we are looking at his eyes, nodding...), whereas in our thoughts we are developing a detailed plan what we will be doing when we come back home, what film will we be watching or something similar. When selectively listening, out of all what we hear, we remember only what is interesting to us and what is purposeful for us to hear. Literal listening is the best example for differentiating the concepts of hearing and listening. In that case we are hearing what is being told to us, but we do not include other elements of communication into listening and, accordingly, we cannot understand what has been told to us. While actively listening we completely follow the overall communication flow. We are carefully listening to what is being told, in what way it is told and in what kind of body language it has been accompanied by. In this way we are obtaining a complete image providing us with a possibility to respond in the best possible way. In order to become a good listener, a man has to have a great desire to understand other people. Listening is asking for effort and attention. It is an interesting fact that listening is one of the rare things a man does not learn (like speech, walking and similar) and accordingly additional attention has to be paid to it throughout lifetime. The art of listening is something that it is acquired and it takes time and practice [15].

#### **3.1. Active listening**

For a quality communication, active listening is of crucial importance. By listening actively we are giving the converser a chance to send the message in the best possible way and we are sending our own message only after comprehending what the converser really wanted to communicate to us. By concentrating on what is and not how it is uttered we are establishing a direct and adequate communication.

Listening actively enables better comprehension. It often happens during communicating that the converser is not being listened completely, and listening without attention and understanding never results in remembering of what someone has said nor does it provide any progress. To actively listen means to listen responsibly [16]. By listening actively, useful information are received, misunderstandings and conflicts are avoided, it is shown that the converser is important to us, it is helped to persons with whom we communicate to more clearly consider the problem and, finally, the relationship of trust is being built which in the business world of today is necessary. The skill of listening implies much more than the capability of hearing a message. It includes understanding the message, situation and other person, i.e. the converser. By active listening the impediments in communication are avoided and other peoples opinions, attitudes and feelings are respected. In other words, the integrity of the person we are listening is respected. Developed skill of listening enables the converser to feel pleasantly, to have trust in the listener and to express more easily what he really wanted to say.

#### **3.2. Active listening principles**

The first principle of active listening is encouraging the converser, i.e. sending verbal or non-verbal signs that will show the converser that he/she is being listened. This principle is very important when you want to encourage the converser to continue the story and when you want to support him. The second principle implies that the converser is asked questions, in order to clarify what he has said. It is also very important to clarify or confirm the contents of the discussion, so that it would not come to wrong comprehension of messages. Re-formulation of a message is the third principle. This principle implies repeating in one's own words what the converser has said, in order to check whether one heard well and understood what has been uttered. The most important principle is reflecting, i.e. it is the situation when the converser is made known to your own opinion on the way he feels, for example: "It seems that the news has upset you." Concizing or summarizing, i.e. repeating the main topic and feelings that the converser has shown or uttered is also one of the relevant principles of active listening. By paraphrasing it is actually made known that the point of the story has been understood and it is then checked whether the conversers have understood each other well, which is extremely beneficial in conflict situations. It often happens that people actually understand each other but do not comprehend it because one or both persons did not get from the other party some sign of being understood. And the last, but not less important principle of active listening is confirming and affirming the converser's attitude and it is manifested through showing appreciation towards the converser [17].

## 4. LISTENING TECHNIQUES

Ways of listening, i.e. techniques applied at acquisition and interpretation of other people's words have significantly changed over the years. For example, in the past people kept silent and the completely passive flow of listening existed while others actively participated in discussion. Today, effective listening means that one has to be as active at both listening and speaking. It means that the listener should think together with the converser, striving towards connecting him/herself with the ideas of the speaker and, at the same time, thinking about his/her feelings, motives and similar. In one word, one should work on deducing the point from what is heard. Thus, main techniques of listening are:

- Empathy- meaning to imagine oneself in place of the converser, encourage him/her (more by body movements than with words), in order that the person realizes that is supported and comprehended.
- Analysis- It is necessary to use as many questions as possible in order to find out what the other person really thinks and why does it think that and what is the true message the converser is sending.
- Synthesis- It is necessary to express clearly what the listener thinks the converser is communicating to him/her, because after that he/ she can either confirm it, deny it or more thoroughly explain his/her own message [18],[19].

### 4.1. The importance of empathy and listening to the converser's feelings

Knowing how to recognize and follow up all the key facts and terminology of the said message is the initial issue in modern business communication. In order to understand all the converser is trying to communicate, it is more important to know what the people feel and intend to communicate than just listen to the uttered facts. Hearing out the feelings represents wide open eyes and ears. Empathic listening contains all characteristics of interactive listening, with additional effort of the listener to understand the emotional state of the converser as well. This form of listening is the most complex because the listener has to emotionally bind with the converser, to understand his/her feelings and motives and to read between the lines because the uttered words often do not have their real meaning.

## 5. EFFECTIVE LISTENING BARRIERS AND OVERCOMING THEM

If a man wants to be taught better and more efficient listening to other people, first of all he has to be aware of the barriers that could occur. Main barriers to successful listening can be put into two categories: those are the conditions under which we communicate and the barriers at the very process of listening. The conditions for listening include various physical factors such as, for example, noise, physical state (illness, tiredness), lack of time, disinterest or the listener's estimate that the communication content is not important. The barriers in the listening process include emotions and mood, sensitive subjects, prejudices, personal attitudes affecting the listening selectivity, threatening in communication (accusing) and similar. Besides the mentioned also presenting frequent barriers are: physical deficiencies- this relates to poorer hearing or speaking flaws; language and styles of speech (-language, as well as the style of speaking can differ from person to person; each person can use the own dialect words, invectives, jargon, specialist words and similar); comments and/or remarks (-commenting of what is being listened can hinder the person speaking because he/she cannot listen and speak at the same time, thus all the listener has to say should always say after the converser ends the statement; more simply said- you should not interrupt other people during their speaking); the speakers characteristics (- sometimes the voice, clothes, appearance, attitudes, behaviour, gesticulation or some other characteristic is not suitable to the conversers); personal meditation (-sometimes the communication contents distracts the listener to some personal problems, thoughts and thus distracts his/her attention from the speaker); focus on facts (- sometimes the listener prepares in advance for hearing only the relevant and/or particular facts; by such selective listening the main idea can be missed out, as well as some other facts that could perhaps be very important); taking notes (- if one is writing down what he/she is listening, one should only be focused on main ideas and relevant things, because if writing everything down, the effective listening will be made highly difficult); old habits (- most frequently they are unconsciously applied since childhood and can endanger the listening capability).

In order that the barriers are successfully overcome, apart from the communication participant having have to be aware and understand them, he/she also has to notice in which situations the listening route can be obstructed and also has to put conscious effort in avoiding and settling the barriers. Only then can the communication skills, i.e. listening, be enhanced [20].

## **6. NON-VERBAL COMMUNICATION**

Knowing how to recognize and follow up all the key facts and terminology of the said message is the initial issue in modern business communication. In order to understand all the converser is trying to communicate, it is more important to know what the people feel and intend to communicate than just listen to the uttered facts. Hearing out of the feelings represents noticing the non-verbal signals, and they are mostly reflected in the tone of voice, facial expression, gesticulation and posture, look and eye-contact, speaking pace, the indicators of nervousness, excitement, depression and other emotional states. Beneath these indicators usually lies the true meaning of the uttered words, but they are sometimes even the opposite to the uttered words. For example, a worker can say to his/her superior: "I think that you are right". The superior can hear it as: "The worker agrees with me", or to understand this message in a subjective way, as anger or objection. In most of the business situations, both aspects of the message being received, i.e. the attitude and information, should be listened. However, attention should sometimes be paid to one or other aspect of the whole message. Research shows that less than 10% of communication evolves over the uttered words and that the body language is very important in communication. and, according to the psychologists, a very important instrument in communication, if not the most important, is the look or eye contact, because eyes are soul's windows, and accordingly they believe that the conversers should be looked in the eyes in order to see what is happening in their hearts.

## **7. INTERCULTURAL LISTENING ASPECTS**

Just as in different cultures the written and spoken language are differentiated, also differentiated are the listening habits and attention manifestation. In western cultures, active listening is often accompanied by eye contact, whereas the audience sends the converser the affirmative facial expression (smile, nodding, etc.). In many eastern cultures, the same level of active listening can appear as staring into an empty space with very few gesticulation. The conversers from the West and the Western business ambient will consider as highly inappropriate if the present in the audience argue, mutually whisper or completely leave the room while the presentation is in course (except in case of danger), and in the Eastern business ambient, such kind of business culture is acceptable and even desirable. Not only in Japan, but also in other Eastern business culture it is completely common that the present people exchange notes, discuss quietly in smaller groups and freely move around the room during their colleagues giving statement. Another problem of the listener from the West is often present during lunch-breaks or meetings. Sometimes the conversation is interrupted and it is continued in speaking in one's dialect. Even with the presence of an interpreter, these kinds of conversations are essentially not translated. The foreigner can be bewildered, looking at the host, it can ask for the help of the interpreter or to look the other way until the host pays the attention to him in official language again or through the interpreter.

## **8. CONCLUSION**

Communication is one of the key processes in every individual's life, as well as in organizational systems' functioning. A special role of the communication process is related to the management profession. Communication is necessary for establishing and realizing company's goals, for developing plans for the accomplishment, organizing human and other resources, further on, for choosing, development of the organization's members as well as guidance, directing, motivating and creating of the organizational climate. Accordingly and due to it, the manager has to know the communication process and all elements of the process. Only based on the knowledge is manager capable of efficiently managing the organizational system.

And, one of the most important elements of a successful communication is active listening. In order to make correct and efficient decisions, it is important that the manager, or the workers in general listen to what is said and be aware of all the information that have been directed to him/her. Unlike written information that can be adopted, the listening capability also includes the non-verbal signals that can expand and enhance the impact of the information on the final decision. If the manager superficially listens to his/her workers and predicts the warnings he should validate and timely reacts, companies can very fast show poor results of the business operations, the workers' dissatisfaction as well as the bad relation with the clients and informing media. The overall reputation of the company can be endangered, and therewith the company's incomes. One of the factors that can often present the barrier to good and effective listening is the inner mental competition with own thoughts, feelings, ideas and new information directed to us. That form of the internal chaos can distract the thoughts from the information that should be consciously understood and adopted, but it is possible to overcome this through learning and practice. And the holders of successful communication should precisely be managers, i.e. energetic persons with an attitude, capable of thinking and making-decisions very fast, but also of stopping for a moment and hear out other people.

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## **CRISIS MANAGEMENT AS A PART OF STRATEGIC MANAGEMENT**

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***Summary:** The importance of crisis management in business is considered as a special form of company management whose task is to suppress processes which can endanger the company. A crisis of a company is the final outcome of unwanted processes which disturbed yield potential of a company, decreased its net assets and/or liquidity to the point that the company's existence is endangered. Crisis management can be divided into: strategic, operative and financial crisis management, which can be further differentiated between crisis management for prevailing liquidity crisis and crisis management for prevailing solvency crisis.*

***Key words:** crisis, crisis management, conducting business in critical conditions*

### **1. INTRODUCTION**

Special business conditions, especially in the process of globalization and world financial crisis, show continual deterioration of company's financial situation. Modern conditions of conducting business, in almost all countries in the world, are characterized by complexity and fluctuation. Crisis management proves itself when crisis in a company occurs, which is connected with the development situation when the company reached critical point with certain features. Crisis in companies are sometimes inevitability and sometimes a result of many different and simultaneous causes. Obviously, a company needs management in crisis too, but then management shows some different features- crisis management.

Crisis management should be considered as a special form of company management of the highest priority, whose task would be to avoid and overcome all the processes in a company which would substantially endanger or disable further existence of a company. From many business reports, and especially from accountancy reports which have a control task, the crisis symptoms can be noticed, and they can be tested by some different information.

Practical and scientific importance of studying crisis management and making decisions in crisis is beyond all doubt. Theorists and practitioners can learn a lot from theoretic and conceptual ideas which come from empirical analysis of different specific cases of crises and catastrophes in different political or social context. Besides, these types of research do not show only the differences, but similarities between crises as well. Scientific importance can be considered in methodological level because the difference in perspectives of theoretical and research studies (psychology, political science, communication science, theory of organization) can be prevailed there, as well as the differences between real life and experimental environment.



## 2. CRISIS AND COMPANY PRACTICE IN CRISIS

Crisis of a company presents “a critical point or moment” in a series of ineffectual managerial-business activities which led to the state in which a company’s existence is endangered. Revealing and prevention, especially overcoming the crisis are in company management’s domain. In those circumstances company management shows the characteristics of crisis management as a specific form of company management. Crisis of company business, symptoms and causes (especially the way of overcoming a crisis through a procedure of privatization) have its characteristics, and that gives crisis management additional role and importance.

## 3. CLASIFICATON OF CRISES

Company crises classification can be made according different criteria such as: according to the location and the number of causes, duration of the process, type of action and other criteria. [8, pg. 32-41]. According to the endangerment aspect of previously established basic economic goals of a company, crises can be classified in the following manner:

*a) company liquidity crisis* presents business and financial situation of a company in which the company is not able to pay its financial obligations in determined period of time of their arrival, or to pay them at all. This crisis is manifested as unplanned state as a result of inadequate planning and inefficient control of money flow. Reasons for this crisis can be found in inadequate financial structure and business losses.

*b) company success crisis* presents business and financial situation of a company where its ability to earn money is questionable, and recognition of this crises is difficult in the situation of unstable business conditions. Success crisis is related to unfavorable profitable position of a company, in other words the losses and insufficient business profit.

*c) strategic crisis of a company* presents business and financial situation of a company where, because of missed or inadequately chosen and realized strategies for achieving mission and company’s goals , the basis for accomplishing success - goal of keeping invested capital and profitability, is permanently endangered.

Briefly, schematic presentation of relations between types of crisis and source of accountancy information support for crisis management of a company can be presented like this:

**Table 1:** Hierarchy, company crisis and information support for the bearers of crisis management [11]

<b>Bearers of crisis management</b>	<b>Type of company crisis</b>	<b>Accountancy segments and crisis management</b>	<b>Accountancy reports and crisis management</b>	<b>Accountancy reports as management instrument</b>
<b>Top management</b>	1) Strategic company crisis 2) Company success crisis	1) Financial accountancy 2) Management accountancy	1) Basic balance 2) Spec.strateg.report 3) Special balance	- Control - Dispositive - Control-disposit.
<b>Operative management</b>	1) Company success crisis	1) Management accountancy 2) Analytical and operational reports	1) Success balance before 2) Internal success bal. 3) Price calculation 4) Special report	- Control - Dispositive - Control-disposit.
<b>Financial management</b>	1) Liquidity crisis 2) Solvency crisis	1) Financial accountancy 2) ) Management accountancy 3) Account. respon.	1) Basic balance 2) Internal balance 3) Reports about performances 4) Special balance	- Control-disposit. - Control-disposit. - Control-disposit. - Control-disposit.

Accountancy information system gains additional role, special role whose significance is manifested in the fact that accountancy reports, with appropriate, relevant information, gain the role of control and/or dispositive instruments in company crisis management, especially success crisis and financial crisis. Besides other information resources they should enable, partial or overall, recognition of symptoms and causes of crisis, type of crisis and especially prevention and overcoming of crisis.

#### **4. MANAGEMENT ORIENTATION**

Basic goal of crisis management, which evolves through five main phases ( planning, organization, guiding, control and decision making), is to overcome the crisis, that is attempt to make organization able, in long term, to survive in competitive market scene.

Crisis management seen as an institution, implies bearers of crisis management- appropriate experts who , engaged as capital proxy, manage the organization in crisis in order to rehabilitate it.

For that cause number of reports with the characteristics of dispositive- control instruments, present an important source of data and information necessary for identifying causes of a company crisis. During gathering information about current situation, a special central sector is created in a company, where information is stored and processed. A center like that is usually called a crisis headquarters. Crisis headquarters represents some kind of logistic and gives support to overall communication during critical situation. In a case of accidents which cause great crises, it is necessary to organize a special location for media with all necessary technical conditions for press-centre, where the crisis representatives will address the public from.

#### **5. SIGNS AND CAUSES OF CRISIS**

A crisis of a company is the final outcome of unwanted processes which disturbed yield potential of a company, decreased its net assets and/or liquidity to the point that the company's existence is endangered.

Analysis of crisis signs implies understanding many indicators and not just in the organization but outside it as well. One of the important and most reliable instruments of crisis management for recognition, prevention and selection of measures for overcoming business crisis in an organization is accountancy reports with appropriate information contents. In their form, contents, origin, comprehension and direction, they can be numerous and versatile. Anyway, the basic accountancy report from financial accountancy and accountancy reports in segments from management accountancy represent irreplaceable source of information for analysis and evaluation of profitable and financial, short term and long term position of a company, that is they gain the role of control and/of dispositive instruments for overcoming the crisis.

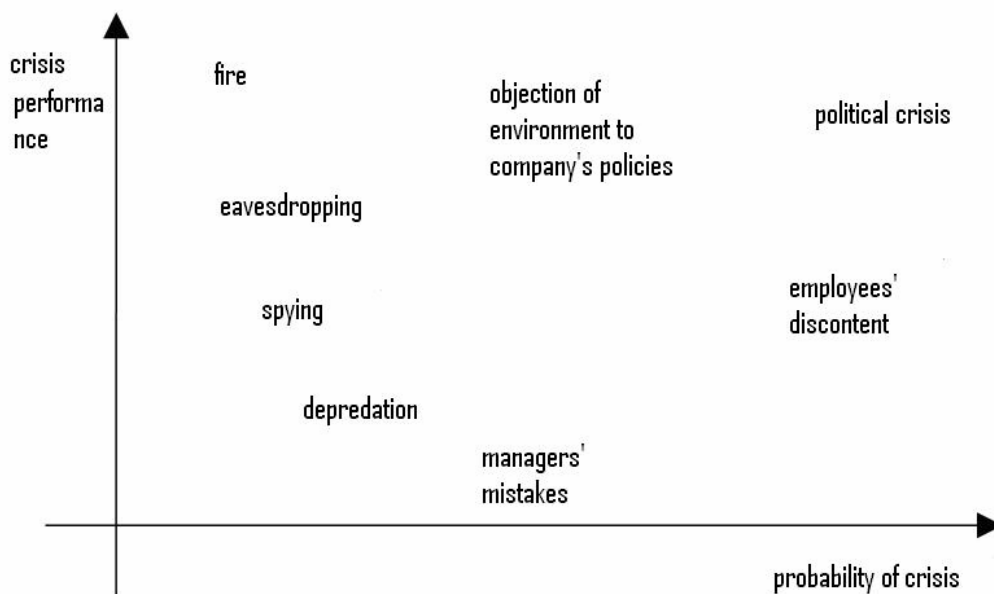
While predicting critical situation, managers have to take into consideration the probability of crisis and the level of its destructive effect. Probability of a crisis can be small, but it can have a very negative influence on image and company's business. Managers can have good performance with the help of ,so called, card of possible crises and their effects, where events and processes noticed in the environment should be incorporated. An example of such card which belongs to a tourist agency, is presented in the picture 1 [6, pg. 136].

The concrete indicators of a crisis should be determined. However, most crises do not begin with only one indicator, but they develop from many small elemental ones, which often remain unnoticed in the multitude of other activities. Those indicators can be: Government interest in companies, rumors, increased influence and union activities, unnoticed sentences in the newspapers articles, PhD dissertations, great number of products and services orders, employees' warnings about wrong business policy, increased interest of journalists in a company.

Crisis management has difficulty distinguishing precisely and analyzing separately the symptoms and causes of crisis because of their natural connection. Symptoms of a crisis are basically only indications with certain features according to which it is possible to identify a crisis in a company. The most important causes of a crisis are: lack of its own capital, sale problems, and management mistakes. Causes of a crisis can be located external (state of public economy – recession, laws- banned export, loss of markets, strikes, political crises) and internal (management weakness, lack of control, etc.).

Many symptoms of a crisis can be different and with different external manifestations. Because of that it is sometimes difficult to recognize them as real causes of a crisis. It is possible that symptoms are based on coincidences or with similar or the same indications as real causes of a company crisis. Then, some symptoms can be unnoticed, and some, again, don't have to originate from any of crises types. Mentioned and other special reasons can make making the right conclusion very difficult about whether the company is in a crisis and if so what type of a crisis. Symptoms of company success crisis are manifested in decrease of profitability, in other words in deterioration of company's earning ability which is, generally, followed by characteristics: decrease of business income, inadequate decrease or remaining on the same level, or even increase of company's expenses, discontent and concern of top and middle management, hints or/and leave of certain managers and experts from the company.

Symptoms of a strategic crisis of a company can be identified as symptoms of success crisis, but with stronger intensity, and beside those in this group of symptoms the following can be included: insolvency, decrease of sale, loss of markets, weakening of competitive position, loss of productivity quality, expiration of technologies, global decrease of activities, unfavorable signals from the environment, etc.



**Picture 1:** Card of possible crises [10, pg. 35-41]

Causes of crisis represent concrete factors or agents which lead to the crisis in a company. They can be numerous, versatile and multilayer. They can originate from the company itself and/of the environment. Causes of a crisis which originate from the company can be located in all functional and managerial areas of activities. Furthermore, crisis in a company usually begins with more than one factors of different intensity. Situations when symptoms, causes and consequences of a crisis are identical are also possible. All this signify the complexity of identifying and analysis of causes of a crisis.

External causes of a crisis originate from economic system ambient in which the company functions. The most important causes of this origin can be: unfavorable motions in the input market (supply), conjuncture oscillations, competition measures, change of exchange rate of foreign currency, tax measures, social politics, policies of subsidizing, measures for observance of the environment and other external causes of non-economic nature- wars, social agitation, natural accidents and similar.

Intern causes of a crisis are, from the aspect of presence, influence possibilities and significance- more important than external. They are the causes which originate and operate within the organization, and can be numerous and systematized in different ways [5, pg. 23]. However, intern causes of a crisis mostly originate from lack of managers' competence, as managerial structure on decision levels and in functional areas of business activities in a company.

Causes of a crisis in the field of control activities of management can be caused by inadequate [9]:

- goals set up ,

- choice of appropriate strategies ,
- financial and project planning ,
- adaptation to technical-technological progress ,
- organizational adaptation ,
- motivational system of a company ,
- function of control system and
- solution in information and communication;

So, from a crisis it is possible to walk out with the same manager-leader style (codes) which caused the crisis. It is not possible to walk out of a crisis with only one type of code, and especially not with the ones which show characteristics that lead to crisis [1]: pathological “founder”, “arsonist”, “super followers”, “second rate trainers”. Centralization, excessive control, inconsistency, workaholics, conflicts, egoism and self-interest, avoiding making decisions on your own, unconcern about efficiency, lack of social sensibility, lack of ideas, disorganization, lack of competence, maladjustment, loss of sense for the world around and unsystematic lead to crisis, so managers and leaders with those characteristics cannot lead out of it.

Internationalization of business, high technology and computer systems of production, shorter life cycle of products, flexible organizational structures, developed partner relationships and growth of additional activities are basic characteristics of globalized and liberalized business ambient, while goal expenses, time discontinuance in management and predicting a crisis are basic concepts of modern companies management.

## 6. CONCLUSION

Crises of companies' business are unwanted occurrences, but in the modern conditions of business sometimes inevitable. They can be caused by different causes- external or internal. In crisis management dominates the opinion about the need for distinguishing strategic crisis, success crisis and liquidity crisis management of a company in those circumstances, generally or specially, gains the role of crisis management. Managerial activities of crisis management for discovering symptoms and causes of a crisis, as well as for recovery from crisis, are based on general and special accountancy reports, as dispositive and control management instruments.

According to accepted and analyzed classification of symptoms and causes of crises, crises management can be divided into strategic, operative and financial crisis management, which can be further differentiated between crisis management for prevailing liquidity crisis and crisis management for prevailing solvency crisis.

Crisis management, among other things, represents a special form of company management with the goal to eliminate the causes of crisis, that to overcome the crisis through recovery. Recovery measures imply making many business economic decisions focused on preventing and overcoming the crisis and not on its liquidation.

In solving a critical situation an important role belongs to the function of public relations which should in due time, transparently and sincerely describe the situation to the public, ensure complete and continual reports, publish available information, even when the situation has taken an unwanted and unpleasant course, and show the its attempt to control, remove or reduce potential consequences.

Basis for managing a critical situation is its planning, that is planning of what may happen. Public relations in critical situations involve activities which relate to what is possible to do to prevent such situation.

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## IMPACT OF REDRAWAL OF FUNDS OF FOREIGN BANKS IN SERBIA ON DINAR CURRENCY IN NEW CRISIS

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***Summary:** All modern economic thinkers have agreed that the impact of new global crisis has been sensed the most by the most developing countries of the world with open markets; the market openness is practically inversely proportional to the expected impact on the economic systems of the countries. Satisfactorily developed financial system of Serbia has been well shaken by the abrupt change of values of the dinar currency just in time of headfirst collapse of great global financial giants. For many years lead restrictive monetary policy has not stopped fluctuations of dinar currency during withdrawal of significant resources of foreign banks invested in securities of the NBS which have been of short life.*

***Key words:** currency, reference interest rate, repo instruments, foreign exchange reserves, surplus.*

### 1. INTRODUCTION

Dollar currency depreciation and deflation which has marked the end of 2007 and beginning of 2008 has not been observed so serious, although even then many experts have warned that it is about the greatest crisis of global proportions up to now. The autumn of 2008 has brought on the cloud over the global financial market.

In September 2008, there has come to the escalation of financial crisis and a real downfall of American giants. The first to have pronounced insolvency was the bank *Lehman Brothers and Wachovia*. The state has nationalized the companies *Fannie Mae* and *Freddie Mac*, controlling about 50% of the total mortgage loans in the USA [1]. *Merrill Lynch* has been rescued by being taken over by *Bank of America* for approximately half of the real value, and *JPMorgan* has been taken over by *Washington Mutual*. *Morgan Stanley* and *Goldman Sachs* have been forced to change their status from investment banks into commercial banks [1]. This decision has arisen out of the need of the investment banks for financial aid of the state that could be received only by the commercial banks [8]. The greatest American insurance company *American International Group [AIG]* has been rescued from bankruptcy by debt redemption by FED [1].

In the period of stability and growth capital is moving from the head offices- central banks towards the periphery- daughter banks; in the period of crisis the capital changes its course. The collapse of great financial giants signaling the crisis amplitude has contributed to the fact that many banks start strengthening their financial basis, withdrawing money in their head offices and national economies.

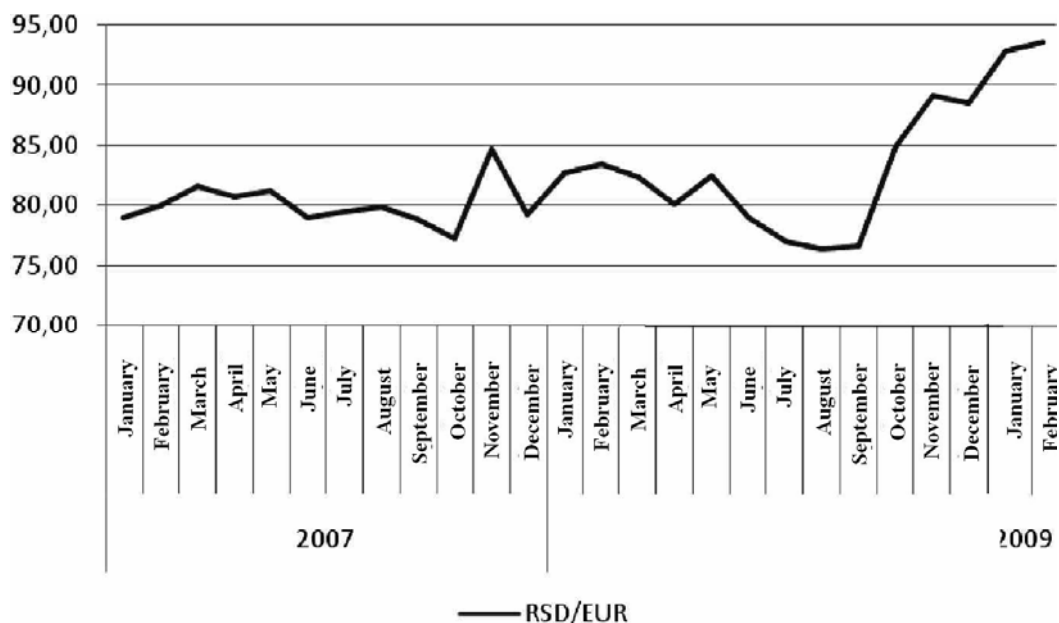
### 2. FOREIGN CAPITAL SHARE IN OWNERSHIP OF FINANCIAL INSTITUTIONS AND THE INVESTMENTS INTO SECURITIES OF NBS

By observing the share of foreign capital in the ownership structure of banking sector of the surrounding countries, we can notice that Serbia is in a lot more favourable position at the moment in relation to many other surrounding countries, which can be seen in Table 1.

However, by observing the flow of dinar currency, which has made significant amplitude for a short period of time, the inevitably imposed question is the following: What is the cause?

**Table 1:** Foreign capital share in the ownership structure of the listed countries' banking sector [11]

FOREIGN OWNERSHIP OVER FINANCIAL INSTITUTIONS	
PERCENTAGE RELATIVE TO THE TOTAL BANKING SECTOR	
Slovakia	97,4
The Czech Republic	96,2
Croatia	90,4
Bosnia and Herzegovina	83,3
Bulgaria	80,0
Poland	79,6
Montenegro	78,1
Romania	70,0
Latvia	67,5
Serbia	60,0
Hungary	58,9
Macedonia	54,0

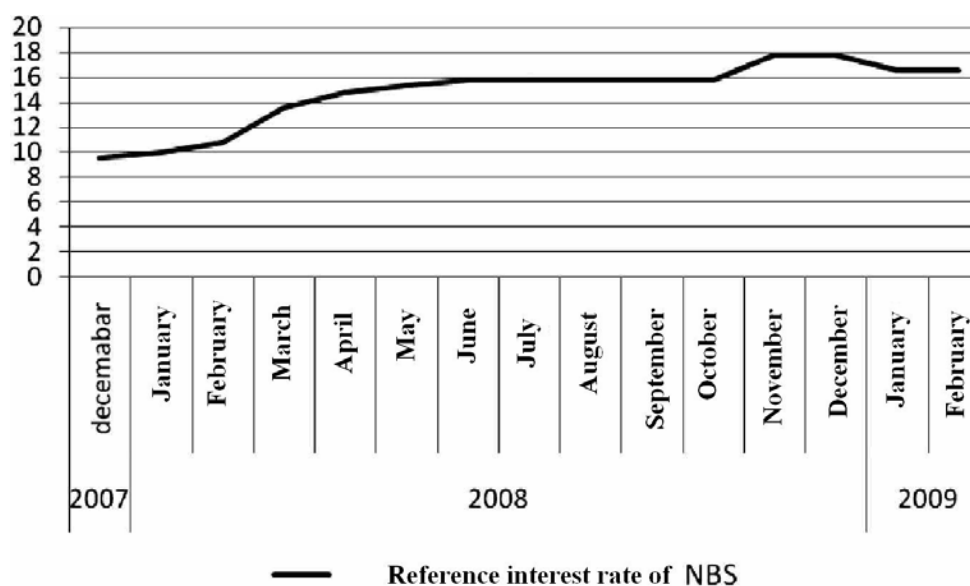
**Figure 1:** Fluctuation of mean dinar currency rate (RSD) in the period from 01.01.2007 to 01.02.2009 [2]

The overflow of crisis into Serbia has led to significant oscillations of dinar currency. The more significant deviations relative to the dominating trend have started in October 2007, when dinar currency has been more significantly appreciated relative to EURO, reaching the value of 77 dinars [2] for EUR in October of the same year. After October, a brief period of depreciation of domestic currency ensued lasting till 30<sup>th</sup> November 2007, decreasing the value of domestic currency to 85 dinars [2]. From November 2007 and till May 2008, there have been no significant oscillations so that, from May to September of the same year the trend of expressive appreciation of domestic currency ensued. The middle rate of dinar on 7<sup>th</sup> August reached its greatest value towards EUR, of 75,7543 din for EUR [6].

The previous two data observed together are in collision (the share of foreign capital in banking ownership and the impact of crisis on dinar currency); however, the causes should be looked a little deeper in previous years lead expansive fiscal and expressively restrictive monetary politics.

The National bank of Serbia, by trying to provide the macroeconomic stability and strong domestic currency has lead a severe, restrictive monetary policy. It can primarily be seen by viewing the reference interest rate of the NBS in the previous period:

Serbia is characterized by extremely high interest rate of the National Bank of Serbia which even under conditions of global crisis remains on the high level, although other central banks, first of all the central banks of the most developed countries in the world, are drastically decreasing their primary interest rates. The economic policy of Serbia is characterized by even greatest discrepancy and incomplementarity in managing the monetary and fiscal policy, which as such mutually annul effects that by their measures the responsible institutions for conducting the monetary and fiscal policy (The National Bank of Serbia and Ministry of Finance) want to achieve.



**Figure 2:** The National Bank of Serbia interest rate flow in the period from 01.12.2007 to 01.01.2009 [4]

The reason why the reference interest rate in Serbia remains on the high level is the fear from increase of inflatory pressure that would jeopardize the macroeconomic stability of the country. This worry is substantiated by extremely high public consumption caused by a long period of years wherein the expansive fiscal policy has been lead, as well as the insufficient competitiveness of Serbia market. Due to insufficiently developed market competitiveness some market participants can misuse this market anomaly, by decreasing the product prices in spite of downfall or expected fall of demand. Taking it all in consideration, the National Bank of Serbia has been forced to run an extremely restrictive monetary policy, increasing the interest rate even in the time of crisis when it is necessary to increase liquidity of economy [5].

In the period from December 2007 till January 2009, the National Bank of Serbia was often forced to increase the level of interest rate. At the beginning of 2008, the reference interest rate amounted 10 % to have the National Bank of Serbia on several occasions in the same year increase the primary interest rate reaching in June the level of 15,75% [4].

Till October of the same year, the reference interest rate remained at the level from month of June, to have the National Bank of Serbia in November 2008 raise the primary interest rate first at 17,7% and then in December of the same year to 17,76% [4]. In January 2009, the National Bank of Serbia has decided to lower the reference interest rate to the level of 16,5% [4].

*The National Bank of Serbia, by keeping the reference interest rate at the high level, has influenced also on fluctuations of RSD currency, by encouraging the demand for repo instruments primarily by two week's HOV of the National Bank of Serbia and practically making the indebtedness in dinar currency very expensive.*

The demand for HOV of the National Bank of Serbia has grown due to attractive interest rate and due to market expectations of RSD currency appreciation. The business banks have bought HOV of the National Bank of Serbia or have performed repurchase with the same funds received by maturities of the already purchased HOV. The purpose of this operation of the NBS on the financial market is withdrawal of the surpluses of liquid assets from the financial market. However, the NBS has used this operation in order to artificially influence on dinar currency. Business banks have indebted themselves at the head offices and placed those funds in HOV of the National Bank of Serbia. The business banks, at this arrangement would earn the interest rate (the repo rate) and the difference obtained on the basis of RSD currency appreciation. The RSD currency has been kept on one level through provision of inflow of foreign exchange currencies into domestic financial system through credits taken by the business banks from the parent banks. This inflow of foreign currency has influenced on increase of the offer of foreign currencies on domestic market whereby influencing on the appreciation of dinar currency rate and thus on repression of the prices growth, i.e. the base inflation [5].

We will have a look on flow of obligations of the NBS on the basis of repo transactions in the observed period: The problem has been because the short term securities have been in question, so that the signals from global financial market, described at the beginning of this paper have caused the sale of HOV that were owned by the foreign banks, conversion of significantly increased dinar resources (high repo rate) into foreign currency and withdrawal of them into the head offices of banks. The first jolts of the currency have very fast caused the banks' panics on the market of Serbia, due to bad experience of the population with the banks in previous period. The citizens have mostly started withdrawing their funds from the foreign currencies accounts and convert the dinar assets into foreign currencies and withdraw them from the banking system, which has caused the domino-effect and further growth of dinar rate.



The NBS has reacted with the two remaining monetary instruments:

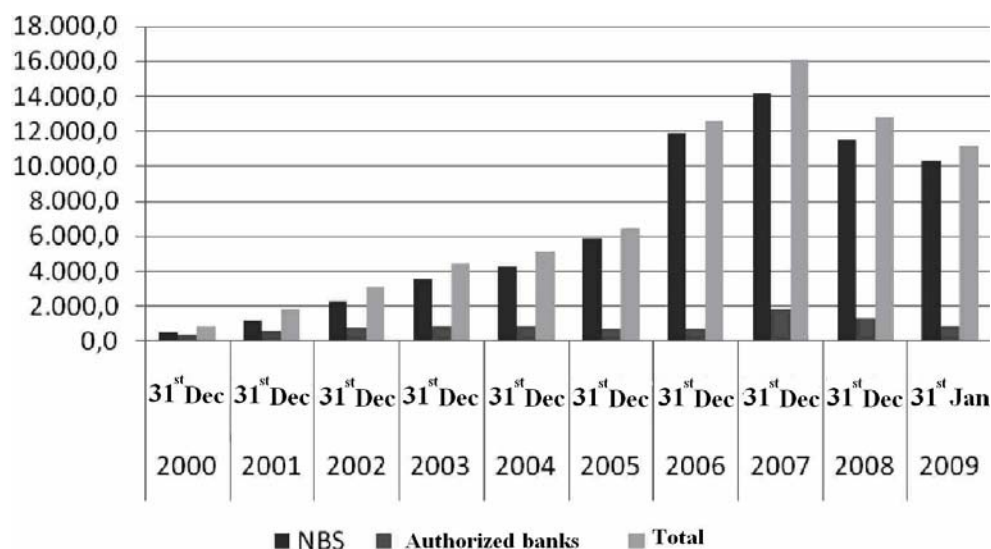
- the mandatory reserves for foreign exchange currencies have been decreased and increased for dinars in banks
- there have been several interventions on the foreign exchange market by selling the foreign currencies by the NBS.

**Table 2:** The obligations on the basis of transactions of the National Bank of Serbia in millions of RSD [4]

Obligations	Based on repo transactions of the NBS in RSD millions		
	2008. year		
January	216.475	September	233.856
February	211.135	October	175.300
March	219.080	November	155.086
April	219.315	December	77.557
May	214.050	2009. year	
June	199.025	January	84.610
July	220.850	February	68.900
August	231.552		

### 3. THE FOREIGN TRADE DEFICIT AND FOREIGN RESERVES OF THE NATIONAL BANK OF SERBIA.

The foreign currencies of the National Bank of Serbia amounted, according to the preliminary information, at the beginning of February 2009 somewhat over 8, 3 billion EURO (the growth has been realized owing to the inflow form privatization of NIS). The foreign currency reserves of the NBS at the end of 2008 have amounted to 8.148 million EURO, meaning that they have decreased in the last month of 2008 by 892 million EUR and during 2008 the foreign currency reserves have been decreased by even 1,5 billion EURO [3].



**Figure 3:** The movement of foreign currencies of the Republic of Serbia expressed in USD millions in the period from December 2000 to January 2009 [9]

The graph represents the level of foreign currency reserves before the privatization of NIS and it can be concluded that during 2008 the fall happened by some 20% which is mostly the consequence of frequent intervention of the NBS on the foreign exchange market.

The level of foreign currency reserves in the period from 2000 to 2007 was in the constant increase. The highest level of foreign currency reserves the Republic of Serbia had in 2007, when they amounted over 16.070 million USD [9]. Privatization is the reason of the constant growth of foreign currency reserves in the previous period. The merit of such high level of foreign currency reserves in 2007 comes from privatization of Mobile operator Mobi 063 ended in 2006. Considering the mandatory prescribed amount of foreign currency reserves by the IMF and the enormous downfall of foreign reserves during 2008, this instrument of intervention for defending dinar currency cannot be counted on in the following period.

In foreign trade of services in the first four years of the observed period (2001-2008) the surplus has been achieved to have Serbia record greater import of services than export from 2005 to 2008 [10].

In 2008, the deficit of the current account amounted to 8.721,3 million USD, which is 26,6% more related to 2007 [10]. The factors contributing the increase of balance of payments deficit are:

- Deficit in exchange of goods and services has increased by 2.662 million USD related to 2007 [10];
- On the basis of income the expenditures have increased by 1.260 million USD related to 2007 [10];

The surplus has been accomplished from the current transfers consisting from subventions, donations, presents and remittance from abroad amounting to 4.145 million USD, which is 1.498 million USD more than in 2007 [10]. In all years of the observed period, except in 2008, the surplus has been realized in the total balance of payments of the country, whereas in 2008 the realized deficit amounted to 2.349 million USD [10].

The current transactions deficit in all the years of the observed period has been covered by incomes from privatization. Under conditions of global economic crisis when it is expected that the flow of foreign direct investments will decrease, since the privatization process is coming to an end, it is expected that the balance of payments deficit will be increasing in the following years.

With the increase of deficit the outflow of the foreign currencies from the country will be more expressed as well, which will decrease the demand for dinar (RSD) and exert the additional pressure on dinar rate decreasing its value. The increased demand for foreign currencies by which the import of goods and services would be financed will influence on decrease of the level of foreign currency reserves of Serbia [5].

#### 4. CONCLUSION

The collapse in financial sector has transferred very fast on the real sector of global economy. We are the witnesses of staggering of many multinational companies, dismissal of great number of workers and practically the second wave of crisis leading the global economy into deep recession.

But, instead of performing their primary task of crediting in order to make the production easy, banks keep to their cash or repurchase the competitors for the purpose of strengthening of their financial basis. It is not surprising that, with the boiling of the bloodstream of the global capitalism, it was just a matter of time when the real economy will start to fall down. The icon of the retail trade, the company Woolworth, has failed in Great Britain, the American car industry is receiving the first aid, and even the powerful Toyota has suffered up to now unseen downfall of profit. With the downfall of the American demand, China and Far East are looking at their goods rotting on the docks, leading to even greater fall of their economies and mass dismissals [7].

In the afore mentioned examples it is clear that the reason of the abrupt weakening ordinary rate besides the foreign trade deficit are short term securities with high yields as well as the banks' panicking that has begin to reign among the population due to earlier negative experiences in the banking system ("Jezda i Dafina").

The financial collapse of many systems has lead to great dismissals of workers. Considering that by the increase of unemployment the aggregate demand has decreased we practically enter into the circle where the further downfall of demand will cause further growth of unemployment. The illiquidity of economy is a great problem, which is necessary to be encouraged in the next period. Because there will be no sense in defending the currency of the economy that does not exist.

The abrupt withdrawal of the short term resources of foreign banks and making the credits more expensive has reflected on dinar rate as well as on the economy as a whole. The problem is that even in the contracts on dinar credits "EUR" clause is introduced, making them more expensive and less favourable than the foreign loans.

The fall of demand for products directly impacts on the decrease of the prices, so that the value of money in the next period will grow. Considering it from that side, there is no place for discussion on the forthcoming fall of dinar value. However, the greatest problem is not only the trade deficit but the huge distrust in the value of dinar as well starting from the very bureaucratic institutions with the mentioned "EURO" clause with which they are trying to protect and simultaneously they make the credit itself more expensive, where the practical indebtedness is directed into EUR loans as more attractive. Deficit is not possible to be solved without production and production is not possible to be solved without resources, primarily the financial ones. Considering the degree of the closeness of the economy and the share of domestic ownership in banking sector the possibilities for change of orientation are opening of the different manner of stimulating the economy without greater oscillations of domestic currency rate. The momentary situation of the expensive dinar assets (high reference interest rate) and rise in the price of foreign loans that again come cheaper than dinar assets burden the economy and the dinar rate in itself.

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## BASIC CAUSES AND ASSUMPTIONS OF WORLD ECONOMIC CRISIS

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**Summary :** *Regulatory and structural lacks of global financial market enabled transformation of crisis from one country in global crisis. In the first wave it grasped industrially the most developed countries of the world, and in other the developing countries and undeveloped countries. Greed and ignorance lead to crisis that was not expected.*

**Key words:** *Community reinvestment act, sub-primary credits, security, regulatory bodies, rating agencies.*

### 1. INTRODUCTION

The door has opened for the fulfillment of the American dream – every family to have their own home in their property. The door that practically lead to the place of the latest crisis: special mortgage credits were given to population with low incomes and weak credit rating, and they are known as very risky. The possibility of creation of easier and higher debting of population opened in relation to income that population has. As a rule, during the first two years of payment, they are guaranteed fixed interest rates on very low level, often much bellow the existing escont rate. That is why they are called subprime mortgages. After this period is over, they go on regime of flowing interest rate, that is, free formed interest rate according to the conditions on financial market. Problems were solved without look in the future.

### 2. DEVELOPMENT OF THE MARKET OF REAL ESTATES IN THE USE, HELPED BY EXPANSIVE FISCAL AND MONETARY POLITICS

*The first element*, beginning of happenings, can be taken to be 1977. when *Community reinvestment act* was adoped which enabled loans to citizens with irregular salaries and low living standard, so called *subprime credits* or *affordable credits*.

*The second element*, we can say the trigger, is monetary politics of low referent rate that FED started to have after the recession in 2000-2001, which practically urged on debting.

Business banks could not directly loan means to clients with bad salaries, but they give means through mediators – nonbank banks and Thrifts. Most of bad credit sales were given by these smaller financial insitutions. Most of citizens of the USA because of unstable businesses that they did or lack of salaries could not get a loan on primary market at business banks, because they could not fulfill the criteria for mortgage credits. Banks and other deposit insitutions, in order to use trend of growth of the prices of real estates and make higher profit from their primary job (sale of credits), initiated starting of new under market, sub-primary market of mortgage credits, which could be seen as *the third element* in creation of new surrounding. On new market clients with bad salaries could get the asked mortgage credit.

In sub-primary market the risk of negative selection was much more present than on the primary market of mortgage credits. Since prices of real estates constantly grew, the banks which could not directly release credits to clients started to buy off mortgage credits from smaller deposit and credit insitutions, believing that those mortgages were well covered and that the price of real estates would continue to grow. In that way the chain was made, and strickt and safe control limitations were skipped on primary market and there was a way how

means could leave primary market. During release of credits, the smaller financial institutions did not ask for firm guarantees, while they were financed from regular business banks which loaned money on regular financial market.

*The fourth element*, not less important, is when bad mortgage credits appeared on stock market thanks to security. Security is a process of creation of valuable papers from assets, which are not valuable papers, or process of transformation of less liquid assets in valuable papers. One of such assets are mortgage credits which are turned in mortgage valuable papers by process of security. When mortgage valuable papers are created, it is important that credits which are object of security process, are alike in value, type of real estate, interest rate and deadline. Mortgage credits are collected in that way and are used as basis for emission of new valuable papers where mortgage credits are used as security that obligations will be fulfilled. The meaning of creation of mortgage valuable papers is to enable banks to provide secondary liquidity under mortgage credits and to spread the circle of potential investors on the other financial institutions.

Since the job with real estates represented an excellent form of profit, more and more people entered the jobs with real estates believing that prices of real estates will continue to grow. In the new model it is very easy and quickly to get to additional sources of financing. In every step of the bank and mediators quickly and easily earn fees, and basic risks are transferred on new specialized markets of valuable papers based on asset-backed securities. The main motive is to work on mortgage credit as fast as possible, and secure refinancing in order to repeat the process with the following client. Of course, in such conditions the banks lost motive to carefully examine risks and paid more attention to finding new customers.

The greatest number of sub-primary credits was released in period of the growth of prices of real estates. In order to make higher profit, banks and specialized agencies reduced premiums on risk for such loans which lead to expansion of market of second class credits. Banks secured sub-primary credits, which means that they turned them in valuable papers covered by mortgage credits and sold them to investors eager for spectacular profit. As financial market of the USA was not regulated enough, distribution of primary risk took wide scope. The scope of business with financial derivatives in 2002. was 106 thousand billion dollars, and in 2008. it reached the amount of 531 thousand billion dollars [3].

Because of trend of growth of prices of real estates, market participants were enabled to make high profit in short term, which attracted on market of real estates speculators and great institutional investors such as big banks, investment funds, retirement funds, insurance companies, hedge funds etc. The entrance of private funds on these markets suddenly increased scope of business and additionally increased pressure to speed the turnover, increase number of clients and value of individual credits. On such level of income and credit ability of household, with weak control more and more new instruments were 'creatively' used. In conditions of stable financial market, with stable future level or growth of price of real estates and expected low levels of inflation, quality financial institutions provided almost unnoticed transfer to floating interest rates and that was not a problem. Of course, no one knew how this new construction would act in bad conditions, when obvious risks and signs of danger occurred [5].

However, since the same amount of money was turned during purchase of more and more real estates, and service of credits was decreased because of bad credit sale of banks, there was lack of money so number of released credits was decreasing [4].

As clients of banks did not have any money to service obligations to banks they bankrupted and number of real estates that banks had was greater. Additional pressure on offer was produced by clients with money, clients who had secure incomes and who stopped to service mortgage credits because of sudden decrease of prices. They decided to do this because real estate where mortgage was formed in the moment the credit was taken was, for example, 120.000 \$ and after the crash on the market of real estates it would be worth 80.000 \$. The clients of the banks who were in this situation did not want to pay off the credit the valued 120.000 \$ plus interest for a real estate that was worth 80.000 \$.

When market value of real estates became less than its real value, banks were in a trap of unliquidity and than problem of individual financial institutions transformed in financial crisis, and lead to domino effect that pulled with it other players on financial market and took crisis in other parts of the world [4].

According to the report of "*U.S. Foreclosure Market Report*" for 2008, 3.157.806 reports about activation of mortgage over 2.330.483 real estates were sent, which is for 81% more than 2007. and 225% more than 2006. [7]. According to the report for 2008, in the USA one of 54 living units received at least one report about activation of mortgage [7].

The mentioned data are not final and there is fear that number of activated mortgages will rise, as crisis goes deeper and taken to real sector. The other wave of the crisis which hit real sector, lead to firing of great number of workers, so their possibilities to pay off mortgage credits will be brought in question.

### 3. INSURANCE COMPANIES AND RATING AGENCIES

The basic problem of financial system and its crash was the weak control of credit sale of banks and financial mediators by FED. The lack of adequate control as well as Community Reinvestment Act, gave space to deposit and credit institutions to release mortgage credits which did not ask for great procedure and control. In the period of expansion of mortgage credits, and in order to give secondary liquidity to illiquid forms of asset, banks and other financial institutions started the process of securing illiquid forms of assets – mortgage credits.

In order for emitters of mortgage valuable papers to decrease the risks of emitted valuable papers, emitters guaranteed for their emissions with insurance companies such as *Fannie Mae*, *Freddie Mac* and *AIG*.

For sale of valuable papers which banks emitted based on mortgage credits, it is very important that emitter has good income, and according to that valuable papers are divided.

Before debtors valuable papers are emitted, they get rating by rating agencies. Rating is higher is risk is smaller and vice versa. By ranking risky valuable papers with high marks from B to AAA, conditions were made for important investments in bad valuable papers from financial institutions, which had an obligation to invest in quality valuable papers. Agencies did not rank mortgage papers well at the beginning, or dropped ratings on time, which caused losses which are measured in billions of dollars. Mortgage valuable papers which in basis had bad credits got high rating. As crisis was deepening, the rating of mortgage valuable papers was decreasing, while at same time the value of portfolio of institutional investors was decreasing who had the mentioned valuable papers in them. Three biggest agencies for giving out credit rating, *Moody's Investors Service*, *Standard & Poor's* i *Fitch Ratings* are under the investigation of state prosecutor because of bad work and dishonest practice which cost tax payers in the USA billions of dollars. Risky investments that practically lead to creation of huge losses were helped by huge trust in rating agencies Was it ignorance or greed? Probably both of them. Value of stocks of investment funds and banks that were hit by crisis the most, started to decrease transferring in that way the crisis and panic from banking sector on stock market, the pillar of financial system of the USA [1]. One of the biggest losses had commercial and investment banks. The writing off of asset in 2007. for *Citigroup* was 46,4 billion dollars, for *Merrill Lynch* 36,8 billion dollars, and for Swiss *UBS* 36,7 billion dollars [3]. From market of mortgage, the crisis was transferred in the beginning of 2008. on the market of stocks and bonds. In September 2008. crisis reached the peak and American giants collapsed. The first one was bank *Lehman Brothers* i *Wachovia*. The state nationalized *Fannie Mae* and *Freddie Mac*, which controlled 50% of total mortgage loans in the USA [3].

### 4. INTERVENTIONS OF FED, DEPTH OF FINANCIAL CRISIS

During twentieth century, in periods when American business had stopped in growth, FED had to intervene by loans to deposit and credit institutions. Interventions in banking sector, their scope depended on the depth of crisis in which business of the USA was.

Using the available data of FED interventions, we can see the depth of crisis that shook American market in previous century.

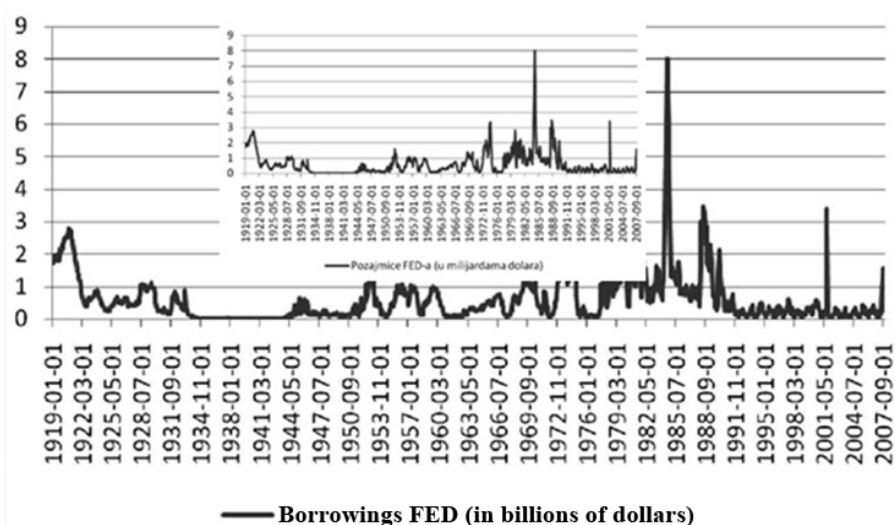
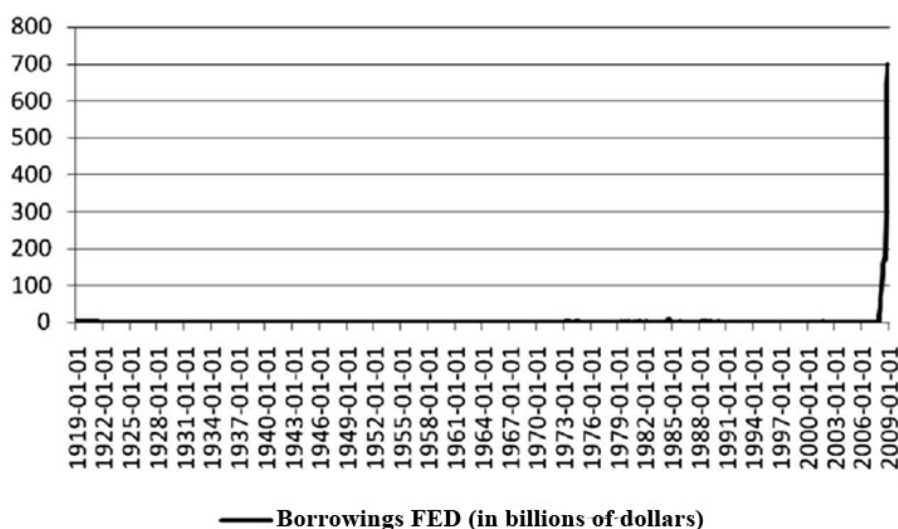


Figure 1: Loan by FED to deposit insitutions in period from 01.01.1919. to 01.11. 2007. [2]

Furthermore, by many parameters, new crisis is compared to crisis in 1929. that was also marked by crash of stock market which by domino effect caused spread of crisis on financial sector (decrease of liquidity, increase of interest rates) which was directly transferred on real sector not only in America but in all developed businesses of the world, which reflected in closure of many companies, decrease of employment, deflation and slowing down of all world business.

All these elements are recognizable in new world economic crisis, however, if want to see more clearly the greatness that we talk about, we will take a look at a diagram where we can see comparison of intervention of FED in previous crisis with the last intervention, which by opinion of many experts did not mark the end of it.



**Figure 2:** Amount of loans of FED to deposit insitutions in the period from 01.01.1919. to 01.01. 2009. [2]

Looking at previous periods, where total interventions of FED, in complete crisis periods (period of many years) moved from 60 to 160 billion dollars, the latest intervention of FED on monthly level was over 690 billion dollars in previous year!

Only during 2008. deposit and credit insitution got help from FED in total amount of 3.287 billion dollars, out of which 2.000 billion dollars in the last three months 2008. [2]. Of those 2.000 billion dollars, the loan to deposit insitutions in October were 648.3 billion dollars, in November 698.8 billion dollars and in December 653.6 billion dollars [2]. In January 2009. FED loaned to deposit and credit insitutions 563.5 billion dollars [2]!

## 5. CONCLUSION

These four elements stated in the paper *Community reinvestment act, monetary politics of FED, creation of sub-primary market of mortgage credits and security*, with the lack of control and regulative, created a base for development of a crisis.

We practically come to conclusion that direct causes of crisis are regulatory bodies of the USA (FED, SEC) and rating agencies who made conditions for the occurance and escalation of crisis by their bad work.

Sometimes the advantage financial market, their global character, now in crisis is the greatest weakness.

Globalization lead to great transfers of capital between countries, multinational companies and financial insitutions, whic helped spread of crisis on the rest of the world. Financial crisis like domino effect was first transferred to the countries that have similar mechanism of mortgage credits (Great Britain and some Asian countries), and very quickly it was transferred to world markets and lead to decrease of value and liquidity of basic valuable papers [3]. Stock market panic was prolonged in banking panic and quick withdraw of deposit and growth of interest rates.

The developed countries and their markets will feel the consequences of the new economic crisis in smaller intensity. Developed markets and opened markets were more hit by crisis.

However, because since it will be impossible to take loans by earlier better financial conditions, they will feel flowing of crisis in their businesses. Especially in real sector, where many companies will be closed, there will be growth of unemployment, and that will directly result with impossibility of population to return credits they have already taken, which will flow from one part of economy to the other and lead to slowing down in the growth of business in whole.

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## CRISIS AND CAUSES OF CRISIS IN A COMPANY

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**Summary:** Companies and their managers should be ready for crisis that could come up at any time. This paper shows the dangers and signals of the forthcoming crisis that managers should be aware of. Further on, types of crisis (economic, social, managing, crisis caused by legislature and natural catastrophe disasters) and internal and external causes of bad business in BiH are listed and discussed. Also pointed out are the losers of B&H because most often managers' mistakes bring an organization into crisis. Those mistakes can be classified as follows: disregard of market changes; poor expense and business result control; bad investment realization or weakly planned development and taking loans more than the business can afford. However, there are also circumstances when management can not fight external factors. Those are for example, political factors, laws, catastrophes etc. Even in those cases certain measures can be undertaken, especially in organizations whose managers at the top are members of decision making organs. It is important for managers to notice influencing factors in time. Accordingly, it is concluded that crisis arises from both external causes and internal causes since many companies have been ruined due to their internal problems.

**Key words:** notion of crisis, types of crisis, causes of crisis, signs of crisis, typical losers in B&H.

### 1. INTRODUCTION

This work topic is "Crisis and Causes of Crisis in a Company". It explains causes and signs of crisis, or how and why a crisis happen in a company, typical losers in Bosnia and Herzegovina, causes of bad business, internal and external causes of bad business and the most common mistakes of managers which bring a company into a crisis. This topic was chosen for reasons of all present world crises, which touched the world's giants as General Motors and companies in Bosnia and Herzegovina, which has shown that the companies were not ready for it, that managers looked at it as something that can not happen to them but it nevertheless came to their companies. The topic was also chosen to pinpoint the dangers managers should be aware of and in what way, as crisis can come at any moment, "it doesn't wait for Monday to come to a company". Although a crisis can appear as a small signal in a company to which you should react fast, as small things can lead to big losses, which may bring companies to ruin.

### 2. NOTION AND TYPES OF CRISES

Crisis can be explained as a condition that threatens to ruin a company. For a company it means a decrease in performances, at a level which can largely endanger survival. Crises can destroy the activity and thus bring company's survival in question, it can ruin its reputation, identity and image, it can hit a company financially, ruin its assets, harm buyers, organization members, or the society as a whole. If something happens to ruin organization's reputation it will come into crisis [5, pp. 459].

One crisis situation is always preceded by a danger. Danger or a Hazard is an event, a phenomenon or a human activity which appears suddenly. If we are not able to react correctly in the situation crisis situation can easily grow into a catastrophe.

Crises in business are common event. Each manager who doesn't go through crisis can not think far ahead enough to be aware that crisis can happen to his organization as well. If we studied only known cases we could avoid a large number of crisis or at least some elements of it, which happen to each organization which is not

ready and is unable to eliminate those elements. There are five groups of mistakes which can act individually or combined. Those are [2, pp. 401]:

- Economic crisis,
- Social crisis,
- Managing crisis,
- Crisis caused by legal system and
- Natural catastrophe disasters.

An economic crisis is considered to be a situation where organization can not fulfil its obligations. In principle, organization has continually low business rentability.

Each economic crisis brings about larger or smaller social crisis. With economy subjects functioning we have a reverse situation. Long-term disregarding of intrapersonal relationships in an organization can provoke a crisis situation. Healthy environment influences eliminating or ruining organizations where social or economic crisis is in progress.

Economic organizations are mostly in crisis for reasons of lack of vision and bad management. Managing crisis usually happens after social and economic crisis, it usually comes first. Whenever an organization shows bad results, management is in crises. Changing management in this situation can not be a mistake. Whenever there is a ruin threatening an organization it should consider management changes. A ruin threat is considered to be a situation of constant decrease in business results for several years continually.

Legal cause of a crisis is considered to be a situation where an organization must be liquidated for legal reasons (forbidding a type of the activity it performs) or when new law brings worse business results (increasing taxes and customs etc.).

Natural disasters are considered to be earthquakes, fire, war and similar situations, which can ruin company's assets, and cause situations when crisis management is introduced.

### **3. CAUSES AND SIGNS OF A CRISIS**

There are organizations that last for decades, and their survival is never questioned. They succeed only because of capable management that foresees the signs of a crisis and performs actions to decrease or prevent it. Each organization is threatened from time to time by a crisis which can question organization's survival.

Crisis developed because changes had happened to which management couldn't adapt.

Crisis situations appear in different periods, both those that appear while transition of a company from one phase of development to another, the most probable. Management often doesn't recognize crisis danger while transitioning from one cycle to another. This mostly refers to no financial problems as they appear later as a result of organizational and intrapersonal problems.

Good organization, if normally developed, has three phases of development cycles: small organization, medium and large. Changing into each new level is very hard and may cause large organizational problems. Each size requires different organization and relationships. From management aspect it is very hard to lead an organization through all the phases of its growth and development and rare are managers who can activate a sufficient and adequate number of workers and associates, and lead the organization successfully enough in order to prevent a crisis. Managing a small organization in its founding usually tricks managers. They think they know all about the company when it is changing from small, through medium to a large one.

Entering a new phase is usually entering a managing crisis which should be applied. Entrepreneur capabilities necessary for the organization at the beginning of its functioning may be very bad for leading a developing company. Then, we need specialists. Company founders who are their managers become obstacles of successful functioning at the level of medium size company already. Entrepreneurs in middle and large organizations must be sufficiently supported by balancers and functional specialists. So, changing from one phase of development to another is usually a crisis period. Organization founders do not want to back off, hire managers, and they are not capable of crossing into the next phase themselves, as it requires other techniques of organization management. This is a typical scenario with us.

In each development phase of a company there is a need for autonomy which managers can't or don't know how to accept as necessary. Managers at the top think that they are losing control of parts, and some managers of separate units are not capable of managing those units. This phase requires formal procedures of organization and control. Subjects that do not build formal organization and control procedures necessarily fall into crisis.

Middle size company problem is in communication. Direct intrapersonal communication is necessary in each middle size company to be able to support its business and decision making. Crisis can rarely appear during periods of business at certain level of development during quiet period of growth, and more often with sudden change from one condition into the other.

Question of outside and inside reasons of bad business is of a special importance. It is necessary to know though, that business is regulated by internal organization and once own abilities. All the experiences of consultants in

the world show that internal reasons dominate bad business. If management timely recognizes causes of future crisis it is possible to prevent it. There are also circumstances when management can not fight external factors. Those are for example, political factors, laws, catastrophes etc. Even in those cases we can take certain measures, especially in organizations whose managers at the top are members of decision making organs. It is important for managers to notice influencing factors in time. It is clear that one economy organization may come into crisis and be ruined for unpredictable risk. This mostly refers to small organizations.

When an organization enters a crisis, first thing for its management is to define whether it is a crisis that requires special measures (receivership) or solutions should be searched for outside the organization, in the surroundings. Crisis usually happens as surrounding factors were noticed too late, weak measures were performed to lessen or eliminate them, and internal misbalance happened. If interest rates of turnover capital are drastically increased, for example, and this comes from the surroundings, it is no use crying over it and asking for them to be changed. Much better solution is to decrease turnover funds, changing politics, acquiring and similar.

If we sum up researches made so far, and experiences of consulting organizations we can state that crisis situations which lead to receivership, are caused by following factors [4, pp. 79]:

- External factors outside of management control - around 20%
- Bad perception of outside factors and late reaction to them - around 25%
- Internal factors - around 55%

In economic crisis periods external factors make a larger percent.

#### **4. TYPICAL LOSERS OF B&H**

All our characteristic losers, except those made by war destructions, can be divided into large groups as follows:

1. Newly built economic subjects;
2. Subjects whose main outcome grows faster than other performances;
3. Subjects which lost their market position.
4. A large number of subjects come into crisis during the first years of doing business. Reasons are different and will be analysed later, but these kind of subjects have the following in common:
  - New leadership that doesn't know the new system and competition;
  - Bad business arrangements during investments;
  - Capacities to use loggias of untrained and bad stuff;
  - Selling is worse than planned as the input into promotion and marketing activities is insufficient.
5. Good results in the beginning of doing business increase aspirations; organization invests too fast, encumbers over their capabilities and comes into crisis.
6. Economic subjects that lose market position because of insufficient care about the customers are badly managed companies which lose their position gradually by not respecting things happening in the surroundings, and neglect their internal organization for a longer period of time.

This group of losers characteristically try to keep their activities for a longer period of time, regardless the fact that they have no conditions to survive at the same form, or making the same production programme. Changes should appear as a new production programme or eliminating obsolete parts of the company, but are usually prevented by old managers. Until they leave, organization tries to overcome the crisis by taking new loans and other concessions by institutions in the surroundings. This is typical for after war period, where management tries to make a firm as it was before the war instead of working on a totally new concept [3, pp. 31].

In the end, the largest number of these organizations comes into illiquidity. Those companies can not survive. This is something a lot of our managers do not comprehend.

#### **5. EXTERNAL CAUSES OF BAD BUSINESS**

All the managers know a large number of reasons for bad business. There is no manager who didn't see them and state then in his reports. Often, managers do not distinguish between causes and consequences, or how much an environment influenced the changed state of their organization, thus we will shortly reflect on the factors of the environment.

Influence of change is the most often factor which managers do not notice in time. There are changes of broader range that necessarily influence the organization and which an attitude must be taken about and proper organization plan made.

Those are for example the movement for environment protection, buyer and worker health protection, restrictions on using certain materials, special quality requirements, energy or some strategic material prices growth and similar. The organization must notice those movements, their influence intensity, and the possibility of adjustment to them of competitive organizations. We are talking about changes of vital importance (not the

usual daily or seasonal influences on business), but about long lasting trends. If we do not consider these changes and organize ourselves at least as much as the others, crisis can not be avoided. These influences can be divided to changes and threats [3, pp. 32].

External changes can be divided into five groups [5, pp. 46]:

1. economic changes
2. competition changes
3. state changes (legislators)
4. social changes and
5. technological changes.

Economic changes include a large number of factors that influence business in total, as decrease in requirements, currency course changes, tax changes, and high inflation rate and similar. As soon as these changes appear, problems in organizations appear, too. While there are no large changes in the surrounding internal mistakes are hard to notice. While we do not notice the changes for reasons of internal weakness they get even greater under the influence of outside factors. One of the factors that is hardly comprehended by managers are changes in loan conditions.

Today, each economic subject must count on competition and take care about what is happening within competition organizations with making new products or substitutes, with introducing new producers, importing products etc. If we do not quantify the influence of change upon the competition and do not take measures to oppose it, crisis is inevitable. Competition can bring us into crisis mostly by changing technology. Competition changes should have positive effect upon development and position of economic subject if they are closely observed and measures timely taken. The best scenario is to be the leader in changes, if possible.

Changes forced by state hardly hit good organizations. Those are various law changes, special taxes introduction, custom changes, restrictions on some materials, premiums, safety laws, freezing prices, employing laws and similar. In these cases experts should be consulted or consulting organizations, to avoid the crisis. Main behavior rule in case of these changes is that the organization must function taking these changes into consideration, must live with it and know that other organizations have the same problem. This means that we must adapt ourselves to a change fast and make business organization which will enable the smallest possible influence of the change upon business results.

Social changes are very slow comparing to organization functioning but must be noticed and planned by the managers. These are attitude to work of a new generation, participation attitude, strike organization, life style changes etc. These changes if not noticed in time and fought can cause management and organization crush.

Technology changes in recent times have one of the greatest influences upon making crisis caused by external factors. This mostly refers to those whose business is in international market. Changes in material and processing happen often in some industries. Organizations that fall victim to technological changes are victims of bad management and planning. Technology changes bring prosperity to well organized subjects. Well organized development-research function in an organization can always choose a technology strategy which will not lead the organization to crisis.

## **6. INTERNAL CAUSES FOR BAD BUSINESS**

At least two thirds of all crisis situations in economic subject business are caused by internal reasons. Generally it could be said that whenever there is a crisis in an organization somebody didn't do his job well. This leads to a conclusion that main reason for bad business is bad management, and most often reason in not noticing problems in time. Reasons for bad management mostly are [1, pp. 482]:

- ignorance, incompetence
- lack of vision
- disregarding priorities
- autocratic management
- insufficient number of functional specialists in management
- late organization adaptation to subject growth
- bad interpersonal relationships [3, pp. 35].

The largest number of problems in all the organizations appear because they do not have proper people for each job. If an organization does not have managing team it can not be a successful organization even with the best specialist performers. Management ignorance and bad management is the most important reason of bad business with us. Managers chosen for managing roles often do not know the area of business they manage. It is mostly dangerous at lower levels of management. Without knowing the structure of business subject functioning, modern methods and techniques of management, you can't make a long term successful organization.

A large number of managers do not have a concept of management. They work on problems brought about by the others. Not knowing priorities and dealing only with current problems often leads to bad business. Most managers here deals with problems that can be solved by the third of employees.

Bad composition of managing team represents permanent danger for organization business. If all the managers in an agriculture organization are of agricultural structure or in metalworking industry all the manager are mechanical engineers, the organization has no chance for permanent successful business. Today, in each economic subject, various profiles of managers and specialists are needed.

## 7. MOST OFTEN MANAGER MISTAKES BRINGING AN ORGANIZATION INTO CRISIS

By analyzing cases you can conclude that the largest number of organizations came into crisis for the four types of mistakes made by their managers as the follows [1, pp. 472]:

- disregarding market changes
- weak expense and business result control
- bad investment realization or weakly planned development
- taking loans more than business can afford.

Once built factory that should make a certain line of products is not a guarantee that employees and management in it have nothing else to do but to produce and sell the products on the market. Market is constantly changing. A large number of managers think only of production plan, makes product quantities with always the same or worse quality and design, and with growing expenses until the organization comes into crisis. Only then management notices that those kinds of products no one produces anymore and that market has completely changed. Numerous are organizations brought into crisis in this way. Each organization must have its own mechanism following the market and adopting their products and services to its requirements. Thus, adaptation fall the parameters of business is performed. Whenever we come to consultants or receivership reports on coming into a crisis we find a constatation that it was production not market oriented. The largest number of managers of ruined organizations are productionally oriented managers who know all the reasons of not fulfilling production plans and do not know anything about the product, competition, new technologies etc. So we often hear their conclusion:” The more we produce, the more we lose”. This phase leads to a conclusion that management hasn’t followed happenings on the market and for years did not adapt to it. Today, the rule that an organization makes more if it produces more at lower price, doesn’t apply. Only the one who has a specific required product will profit. *If the product is asked for expenses will be paid.*

The second mistake by importance and frequency, causing crisis is disregarding cost control and business results. Managers do not insist on building control system. Lack of legal information leads them into a mistake. They are not informed regularly and rarely ask for information themselves. If you ask for information in an organization on cost, production price, calculating elements, certain product rentability etc, and you can not get the information, this organization is already in crisis, or will soon be.

Weakly planned development or leaning upon loans are also mistakes leading to crisis. If managers have badly planned organization future, development is slow, and leads to business decrease, which is a great loss both for the managers and workers. Bad business leads to loans that can not be afforded and thus firms are ruined and closed.

## 8. CONCLUSION

Present economic crisis is only a strong wave hitting companies. Effect of it will not influence different economy types equally, small, middle and large companies or stable or less stable companies. Organizations are already used to numerous crises. Among external factors of ruin we can state: competition growth, inability to follow competition thus creating uncompetitiveness of the products, sudden technology changes which a company can’t follow, social and political crises in national and international levels, life standard decrease, imput resources price increase, raw materials, changing loan conditions, decreased value of national currency, high inflation etc. In order not to collapse, an organization and its management must find ways and answers to external influences by various types of strategies, changing business politics, and similar. External influences are harder to react upon and find appropriate solutions. In such cases solutions are mostly adapting to newly made conditions types of economy.

Crisis doesn’t always come only for external reasons. Manu companies were ruined mostly because internal problems. Essentially, more important reasons for a company collapse are of internal character. Opposite to the previous, a company can influence conditions easily and more efficiently in order to stop performance decrease, bad business results and collapse and ruin of the firm. Internal causes of crises are: low production level, high production expenses and thus high product cost, insufficient financial control, lack of turnover resources, chronic

illiquidity, high rate of not paid claims, low level marketing and selling, high debt rate, and in the end low quality management. Owners themselves are often causes for crisis situations: high ambition, wish for fast development, broadening capacities and business activities in different economy areas, buying other firms with bad characteristics, unreasonable trust in existing management etc.

An organization crisis has never appeared suddenly, regardless external or internal development reasons, but cumulatively, and more often in specific areas, not in all at the same time. That is why it is possible to predict a crisis and react upon stopping it in time. Crisis signals, even the weak ones must not be ignored. Company health is similar to human health, the sooner you discover an illness, the easier it gets to treat it. In these situations, organizations mostly choose fast and short term solutions.

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## E – INSURANCE

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**Summary:** Internet technology is moving traditional ways of doing business realizes technological boom and shortens the path to the ultimate goal of the business man. To ensure a business-like man, your investment in which is an integral part of the risk, is forced to ensure their investment in the flow of the market economy with a view to his insurance company to guarantee a return on investment-received. Insurance now includes a huge financial transactions, confidential information, an interactive link of investment and capital to the present time the role of the Internet in the insurance business is a challenge as the factor which primarily makes trust. Trust is a key to investment, which creates fluid rut with the aim of profit. However, Internet communication is weak tangible slightly as a number of the user puts into the zone of risk, this paper is primarily aimed to simplify and explain the natural laws of e-business in the sphere of insurance.

**Keywords:** e-business, client, internet, insurance, administration, purchasing, insurance company, policy, consulting, customer, business model, services, media, liability insurance, life insurance, travel insurance.

### 1. INTRODUCTION

The rapid development of e-business opportunities carries out the reflected and the insurance companies and insurance in general. Insurance companies have, much later than the banking sector, accepted the Internet as a new business medium. The reason for this are many factors that sell insurance products via the Internet are specific, such as:

- Complexity of the products especially by life insurance policies. When purchasing life insurance policies, the buyer requires a large number of additional tips and explanations that are difficult to standardize and design using internet technology.
- In a lot of cases is difficult standardize the conditions of calculation, which includes a large amount of money for research and decision making. Also, these processes often include people and companies who are in contractual obligation of the insurer.
- The Internet is especially eligible for products where the client and contact the company that sells products quite often. However, insurance is an activity where there incidence of contact clients and insurers. Insurance can be bought in a few years or even once in the human century. Sometimes policies can be closed for some kind of insurance and insured and can hardly have more meetings with the insurer unless the insured case occurs.
- Many consumers believe that it is still assured as a medium for insurance. Insurance includes large financial transactions and confidential information and a lot of people do not have confidence in Internet security.
- In underdeveloped countries, the lack of legislation that defines the electronic signature and electronic certificate practically prevents e-business in insurance.

Not all insurance products are suitable for Internet distribution. Eligibility depends primarily on how much they demand reports. Products that are particularly suitable for marketing and selling via the Internet are those that can be dangerous, and estimated using a small number of parameters. These are for example car insurance (compulsory insurance) travel insurance, insurance for apartments and houses, household insurance, some limited life insurance [1].

Products that are not suitable for online insurance include most life and pension insurance, health insurance and some commercial insurance. However, the presentation of these products on the Internet insurance companies has great opportunities for improving service quality, so you can see that:

- Although consumers have a wide range of offers of insurance and risk expertise, the Internet still represents a new marketing approach; for example, insurance companies, thus can provide additional services and consulting in the process of negotiation of insurance.
- Even after the conclusion of the contract and signing policies, although without Internet support for administration policy Internet can be the advantage. For example, with health insurance a client may seek advice of independent experts in the selection of the insurer, so he may also use the Internet for preparing and sending the necessary documents, accounts, etc.
- Brokers and insurance agents can also use the advantage of e-business for faster and timely delivery of documentation and the ability of simultaneous processing a larger number of clients.
- Modern communication technologies enable easier and faster application of damages, faster responses of insurers and better support to the company's management.

In the insurance industry the Internet is not used only as a distribution channel, but in almost all areas of the manufacturing process. Integration of all business processes and information flow integration greatly reduces the cost of collecting and analyzing information. Since the process of information plays a key role in the creation of profit in insurance, the use of new information and communication technologies is a key link in the chain of creating new values. So this is a significant pressure on insurance companies to adapt to the use of new technological opportunities and thus contribute to faster, better and more quality service.

Possibilities of e-business in insurance are primarily reflected in a significant discount prices for business processes. The insurance company's direct contact with the client has no costs for insurance brokers. Automation of business on the Internet saves time and reduces the number of employees. Business over the Internet user receives a lower price and improved service. With automation and rationalization of operations in the insurance companies costs too must be significantly lower. E-business improves customer service and be better and faster information, response time is less firm and general conditions business are transparent and fast. However, Internet insurers can be unfair competition to classic insurance companies where sometimes lower and faster service will be at the expense of quality. Also, the internationalization of business creates chaos and turmoil in the electronic market, so that consumers do not always have adequate security and protection from fraud. Insurance companies are characterized by a fairly traditional and conservative hierarchical structure. Internal relations and conflicts in companies hamper the implementation of new business models. Typical Internet user is not a typical buyer of insurance. It is known that the younger generation of frequent user of the Web - and, however the younger generation is not the target group for insurers. This situation can be changed through the demographic changes and through changes of Internet users.

However, in trade of insurance and insurance products not only insurance companies do business but also do the insurance broker (insurance agencies, brokerage houses, etc). Only insurance companies have a large number of sales agents. Emerging of the internet and web business achieved significant business communication easier and greatly reduces the costs. So in the insurance industry not only is the B2C business application important (business directly aimed at the consumer), but the B2B business, i.e. operations between two legal entities (stock company and insurance agency for security).

## **2. DEVELOPMENT OF ELECTRONIC BUSINESS IN INSURANCE**

Internet security is first started to develop in America. In 2000 the first online insurance policy was purchased for car liability with "Progressive" insurance company [2]. After growing number of insurance companies in America, many direct insurance offer channels more to the Internet. More insurance companies developed that lead their business exclusively over the Internet. Also the so-called hybrid insurance companies are being created, which tend to draw benefits from both concepts as with physical infrastructure and human potential, and lead a selected segment of business over the Internet. These companies are developed as classic insurance companies buy Internet insurance company or just develop a business on the Internet. In Europe, Insurance is at the top of the sector of e-business.

The vast majority of insurance companies use the Internet in addition to less important sales channel, while a small number of companies use the Internet as the main distribution channel [4].

According to the survey e - Business insurance sector has in common with the financial and telecommunications sector, the largest share of web sites. But the group online retailers, insurance companies have the largest number of companies' share of online sales in less than 5%.

According to the results of research on insurance companies the most important barriers to e-business insurance in Europe, is the opinion that the income from online sales is still low and that consumers are reluctant to buy insurance through the electronic media.

Business processes in electronic business in insurance companies in most part are reduced to electronic data exchange with suppliers.



While the quantitative performance of applications in the insurance sector information technologies are high compared to other sectors, qualitative application is still not at a satisfactory level. Lack of interest from potential buyers to conclude contracts for insurance online can be a consequence of websites and services. Search web sites may be insurance companies are not adapted to the needs of customers and e-mail service should be improved. The design of insurance products should be adjusted to the demands of the Internet and mistrust due to lack of personal contact to compensate the speed and ease with which the customer chooses and gets a policy. This can be easily applied to property insurance. Insurance products should be clearly presented and insurance companies should explain clearly what risks are covered and which are not given with the policy offered. Web site should be suitable for browsing without losing data in returning to the previous page. Special web site tools should help us find products that meet consumer needs and to provide information and consulting services.

### **3. MODELS OF ELECTRONIC BUSINESS IN INSURANCE**

In the whole, current business models can be classified as:

1. Web sites of insurance companies;
2. Product portals;
3. Point – of – sale portals;
4. Aggregators (Internet intermediaries in insurance);
5. Online risk markets;
6. Converse auctions (auctions of insurance demands).

### **4. WEB SITES OF INSURANCE COMPANIES**

Almost all of the insurance company now have their own web sites that provide information about the company, products and conditions of insurance. With its web presentation the insurance company allows its customers easy access to a wide range of insurance products. Using a new form of marketing and technology, the insurance companies cope with the historical barriers that are the potential buyers. With the advent of the Internet business flows become returnable, so that consumers get the opportunity to comparable-market move closer to an open space.

Most elementary application of Internet business models in the insurance market are:

- a) Online marketing support;
- b) Online distribution of traditional and Internet products;
- c) Online administration.

### **5. ONLINE MARKETING SUPPORT**

Marketing support is the first step in e-commerce of most insurance companies. Many insurers are retained at the level bearing in mind the character of their customers.

Target customers of insurance companies are not trained to use the advantages that the Internet allows. Therefore, insurers organize educational companies in order to prepare and train the consumers to be able to use interactive and virtual environment. Economics demands that the insurer use those mechanisms which its customers can understand no matter if they lag behind the current technological capabilities.

### **6. ONLINE DISTRIBUTION OF TRADITIONAL AND INTERNET PRODUCTS**

The second step in the traditional way of selling insurance is the ability to sell insurance products online. This is the most advanced stage for most traditional insurance companies. In a single line it is the most aggressive stage, which introduces e-business without interrupting the flow of conventional business. For most insurers it represents the ultimate goal in relation to electronic commerce. This model is very simple for the sale of products and the trend is specialization of narrow range products. Examples of companies using this model of e-business are Webinsurance and AnnuityNet companies.

Webinsurance offer quotas for products and insurance services and use information related to the financial needs of consumers. In this phase the service is available in the European Union, America and some other countries. They use the same web page as an input for all companies in the group. In the case of Webinsurance all countries have joined with a common platform. The problem common platform is that in this way it can happen that some

differences in design are presented as the first product. In this scenario, without borders, consistency becomes most important. The website offers travel, home, auto, health, and some types of life insurance.

Selling online policy is mainly focused on the sale of property insurance and compulsory insurance. Life insurance companies are not represented due to the complexity of life, health and pension insurance and pension systems of various social securities in different countries. With the development of technologies such sites will primarily represent the online financial advisers. Insurance companies also use the frequency of purchase of insurance, such as for example travel insurance in order to entice customers to buy other types of insurance policies. In pension insurance, the AnnuityNet.com web site is the largest market place for direct sales of annuities. Direct investors and financial advisers use the web site to verify the election and the amount of pension products from a wide selection of similar companies. Web site works on the principle of discount consumer goods. Web site attracts potential customers by selling products and publications over ads.

## **7. ONLINE ADMINISTRATION**

The process of online administration provides different types of services for consumers and insurance brokers. A good example of this operation is the American International Group (AIG), which provides services to individuals, brokers and companies [4].

AIG is a company based on international insurance and financial services and it is the largest insurance company in America for property and industrial insurance.

The company sells a variety of commercial personal products in nearly 130 countries of the world. AIG's global business provides financial services for aircraft leasing, financial products, trading and marketing development, and management, investments in real estate and savings and pension products. AIG is designed with the following characteristics.

- Direct purchase of combined product portfolios;
- Seven-day quota;
- Customer service that includes: fair conditions, policy processing and online consumer services for most products;
- Contents and resources related to insurance as a calculator of premiums, display of items, expert advice and money savings.

Access AIG.com is a sub-channel for insurance intermediaries. That is how products are being offered to intermediaries (brokers) via the Internet. Service provides basic advice and is aimed at providing services counselors in real time. Companies provide online telephone or benefits of sending faxes in conducting transactions. The service is primarily designed for brokers and risk managers from insurance companies.

## **8. PRODUCT PORTALS**

Portal is the place on the Internet where any online activity of users begins. There are general, industrial and thematic portals [4].

Unlike a site that by definition can have one or more web pages that are linked portal has links to its business processes. Type C companies are behind the type A and B companies. They respond to the latest changes and introduce them only under pressure.

Type A Companies have portals for everything in the business space. They have portals for agents, for different business lines and for all those who believe they need to communicate electronically. Companies type B have portals depending on need, and company type C are very low adapted for use of the portals. However, most portals that have companies are very independent. They are developed for different people who use different tools in the enterprise, which have different approaches to information and some of them who have documents with personal amenities they have used before the portal.

There are a lot of independent portals, warehouse portals through which to establish contact with clients and who have short-term goal to improve communication with agents and customers. But when you look at the whole, most insurers do not operate as a single company. They spend too many resources because they have more independent projects that are often in conflict with each other.

Therefore the portal must be constructed as a unique system. It needs to be made so that consumers can register, get the necessary information and can use different paths on the portal depending on their needs. Portals can provide management of corporate brand. Also, in this way they obtain centralized information and greater control for all portal applications that are used.

In insurance, the portals need to offer information about sales and renewed transactions.

Consumers generally want to personalize their financial information and to have all activities and transactions available online.

Portal can be created for consumers, related agents, independent agents, brokers, investors, service suppliers, re-insurers and officials of their company. This portal can be connected to the consumer front end and back operations in the insurance company. In order for insurance company to attract consumers they use cable and wireless solutions and it is being looked what informational applications are attractive for consumers. When you look at each individual user group - reinsurance, officers of the company, agents and consumers, all of these users have needs for information, interactions, transactions, business benefits, integration and cooperation. These are users who want the right information at the right time and delivery through the right channels, 24 hours a day. We also want personalized information, the possibility to ask questions and get additional help. Thus a way of cooperation through a very intimate environment is created.

For the first time companies start to create environment through personal contact with customers. In this way, insurers can get information about their customers, their life needs, significant events for them and based on that, they can make a list of things that may be of interest and which are based on their information. The power of personal technology is a good start, but can not be the final goal.

Web sites usually can not answer all the needs of consumers. A lot of companies from the life insurance and property and auto insurance, provide reports so their online users would not send them e-mail. This is not the way that customers contact the insurance company. The insurance industry is such situations that consumers want to communicate personally with the insurer or the corporate representatives in real time. Therefore insurance companies lost the ability to build relations with customers or to improve existing relationships. Also another problem is presented in the network of external collaborators. Insurance companies spend a lot of time and money for a network of agents who do not use the web fully. Also invest in a lot of resources in that agents begin to use technology-based portals. Companies invest in marketing, working to promote and train agents to take advantage of the web [3].

In recent years it is a general trend in all business segments and in insurance too to use portals more frequently. According to research in the field of life insurance, especially health, property and auto insurance companies make their portals, or use a third group of portals that have common terms with them. For now the largest application of portals is in property and auto insurance. In property and especially the auto insurance the use of portals is very attractive because of the implementation of the transaction itself. There is not only speaking about the portals, the portals are developed and controlled, is being developed with a common job portals which are usually used by attorneys. So the people on the portal include insurance companies and other participants from the business environment.

Portals provide support in managing sales channels of insurance. For an insurance company owning a successful portal means putting user requests to the center of attention of information flows, centralization of content and information, implementation of working procedures through the application, application of business logic, the movement towards the right actions and access to data, in real time.

Portal as a sales channel can be used in cable technology. Companies can in this way too organize and centralize information. They can also do an automation of internal processes and consider how that information can be used in relation to needs. This application is integrated with other transactions. In the internal processes and data, it is the first step.

When you look at the insurance market today, you can see four options. The first one is horizontal portal providers. This type of portal service has no protection that is needed for insurance. Horizontal portal allows connection to the user application, a favorable business relation of intelligent integration, but still does not meet all the needs of specific insurance transactions, conditions or training agents.

The second option is the core - processing sales with web interface. The insurance company may order a portal just for themselves. It is a good option if you use only one information system. But in reality the situation is more complex and insurance companies having different applications from different suppliers of software and hardware equipment. So this option is not technically an easier way for insurers. Insurance companies have multiple systems with different application solutions that are created by different manufacturers.

The third option is the CRM sales with portal capabilities. With CRM, the solution of the insurance companies has the possibility of association of information about consumers. So you can create a portal with good functional CRM applications and it can be used only to send the information to users and to exchange information between users. However, it does not meet the other requirements related to the portal intelligent business, documenting, contacts and transactions. Some of them are among the data collected, but these data are not integrated into other business systems.

The fourth option are specific portals for insurance. That is how the requirements of the portal are being met, while getting the integration with other parts of the information system. But one can not improve and increase the value of transactions on the portal or even the possibility that the transaction is executed without a great burden for the IT sector in the company. Portal will in many cases be a reliable infrastructure in the individual insurer. One of the misconceptions and wrong portals is that they can be helpful in the short term. Portals are of great help for sales information, but they will give their full meaning only when they are related to other

operations of the company. This means that the policy purchased and paid electronically through the portal should automatically be booked and shown in financial records.

## **9. ONLINE RISK MARKET**

Unlike the previous examples of e-business model, which mainly include the insurance market, online market risk model is characterized by the fact that especially relative for the reinsurance market. This model includes the online risk market, which play the role of broker between business partners, usually insurers, re-insurers and large corporate clients. It looks like the exchange of large or entire risk portfolio [4]. The development of alternative risk transfer methods opened the possibility for the introduction of new solutions in the Transfer of special risk. The concept of risk sharing is intended to improve information flow and transparency in business areas where the size of the potential loss excludes many of the participants from the market. This shows the capital market in their financial circumstances, a higher risk appetite than traditional participants. In the online risk markets re-insurers may also find use and attractive ways that will help them in the diversification of their risk.

## **10. AGGREGATORS**

Aggregators are business models that offer electronic market places where consumers can compare products and prices of various insurance companies. Model is especially suitable for uncertain financial advisers, brokers and well-informed customers.

Aggregators offer a platform for consumers so they can compare the basic products offered by different insurers. However there is a potential problem of comparing a set of products where product characteristics are not equivalent.

## **11. CONCLUSION**

In the last few years significant changes in insurance forced the insurance companies to seek better ways to perform their business. So the companies introduce mobile solutions in order to increase productivity, reduce costs whereby all of it makes substantial return of investments.

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## MANAGEMENT OF DEVELOPING URBAN TOURISM IN SERBIA

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**Summary:** *Tourism has a more and more important role in economy, and its further development depends on coordinated development and adjustment of touristic product with modern market trends, where bigger influence have different forms of tourism of special interest. Urban tourism is one of special forms of tourism, which offers that branch of business in Serbia a long-term competitive advantage. On one hand, touristic potentials of cities in Serbia have just started to be recognized, while on the other hand, there is a need among tourists, foreign and domestic, for this form of tourism. Potential of this demand is possible to use completely with planned and coordinated approach to development of this touristic product. The development of urban tourism will mean a better place for living for people too, and economically it will benefit to the whole community and bring not only higher touristic demand but also increased spending of local population stimulated by a more attractive place for life and fun, created by development of touristic activities.*

**Key words:** *tourism, urban tourism, economical development, management, international economy.*

### 1. MODERN TRENDS IN THE DEVELOPMENT OF TOURISM

Twenty first century brings with it a large number of different questions, which in the field of tourism usually are: which forms of tourism will interest tourists? Different authors in their works state the predictions of mega-trends, which will have primary place in touristic movements in the future. The most complete prediction is given by WTO which emphasises five mega-trends [1]:

- *Eco-tourism* – Eco-tourism has spread from one unimportant base of 'ecological and socially responsible journey' to 'journey with natural component'. Eco-tourism in the widest sense of the word, offers chances for development and possibilities to finance protected zones;
- *Cultural tourism* – Here WTO differs the choice between small market places with special interests and big groups that visit cultural monuments on holidays, which otherwise has different focus;
- *Theme tourism* – Tourism which is focused on specific interests and represents a relatively small market. Special interests have advantages, but also other aspects, such as climate or location;
- *Adventure tourism* - This form of tourism represents small, but growing market group. Considering the circumstances, and that almost every corner of the Earth was researched, this segment is interest for explorations of mountain tops, depths of seas, Antartic and space;
- *Cruising*. Main characteristic is the possibility that people can in short time see a lot of things. ("time poor – money rich").

International tourism in the world is in constant increase. Analysis of its movement in the period from 1950. to 2002. show that the number of international arrivals has multiplied for more than 28 times, while profit from international tourism increased for more than 220 times. For the stated period, average annual rate of change of growth of number of arrivals was 6.64% and income 10.92%. WTO predicts a growth of international tourism to 1.6 billion travels in 2020. and profit of about 2 billion dollars. For Medditeranean countries, they predict the decrease of market share from 30% to 22%, or, increase of visists annually for 3%, from 167 millions in 1995. to 346 millions in 2020. [1].

Competition on world touristic market is more and more harsh, not only among countries of one region but also among regions on world, global level. For tourists, great number of existing and new destinations are fighting. For tourists the most important thing is to spend little money for most services, so good prices in plane traffic

help them cross great distances and meet new destinations with the same and even less spending. In this way even the furthest destinations that have better conditions, become serious competitors on world touristic market.

**Table 1:** International arrivals of tourists and made profits from tourism in the world from 1950. to 2002.[8]

Year	Arrivals of tourists in millions	Average rate of change in %	Profit in billions of dollars	Average rate of change in %
1950-1960	25,2-69,3	10,65	2,1-6,9	12,63
1961-1965	75,3-112,9	8,44	7,3-11,6	9,71
1966-1970	119,9-165,8	6,70	13,3-17,9	6,12
1971-1975	165,8-222,3	6,04	20,9-40,7	14,26
1976-1980	228,9-285,9	4,55	44,4-103,1	18,35
1981-1985	287,1-327,2	2,65	107,5-118,1	1,90
1986-1990	338,9-458,2	6,22	143,5-268,9	13,38
1991-1995	463,9-565,5	4,04	277,6-405,1	7,85
1996-1998	596,5-625,2	1,58	435,6-444,7	0,69
1999-2002	650,5-714,6	2,38	453,4-460,2	0,37
1950-2002	25,2-714,6	6,64	2,1-460,2	10,92

Many authors think that causes for a change of modern tourism is in changes of valuable system which influenced on setting of new living pattern. From stated relationship, come new and different touristic needs and new forms of tourism which are developed to satisfy new demands. There is affirmation of living needs that completely changed industrial model of tourism. Emphasis is on the individualization of tourism according to new living form that has changed and under the influence of processes of globalization.

## 2. URBAN TOURISM

Urban destinations are among the most visited destinations in Europe, and cultural sector is an important basis of resources for development of this kind of tourism. Understanding of reasons for touristic visit to towns is a starting point in attempts to understand the phenomenon of urban tourism. Clear and thorough research of why tourists visit specific places demands a psychological analysis of the behaviour of tourists, especially of touristic motivation. Generally, it can be realized that tourists are attracted to towns because of the specific functions they offer and scale of offers they provide. Shaw and Williams [2] give an explanations of the meaning of towns in tourism. They think that towns have a geographical concentration of capacities and attractive places which are located in such a way to reach the needs of tourists and local population. In fact, tourism in towns is a phenomenon that researches observe in three ways.

*First* - towns are heterogeneous by nature, which means that they are different in size, location, function, looks and inheritance.

*Second* – they are multi-functional because they at the same time provide different function.

*Third* – urban touristic functions are very rarely consumed exclusively by tourists, but they are used by local population too.

For determination of forms and trends which are characteristic for urban tourism, a research of European touristic committee was used.

As the most important characteristics of urban tourism we mention the following: [3]

- Typical visitor of a town is younger than 35 (42%), well educated and with higher incomes;
- Except young, towns are often visited by older guests, there is a strong correlation between the height of personal income and travelling to towns, so Europeans with the highest personal incomes travel to towns four times more than those with the lowest incomes,
- Women visit towns more than men,
- The most represented market segment are couples without children so called DINKS (*double income no kids*), and the least couples with kids (only 20%),
- Tourists in towns more than others stay in hotels (42%) and travel by plane (43%), although in town they often come by their own cars (34%), and every third visitor stays with relatives or friends,
- Recommendation from relatives and friends is the main source of information (31%), usage of internet (19%) and touristic brochures (17%),
- Among foreign visitors to most European town most of tourists come from boarding countries (exception are tourists from Germany, Great Britain and France who are important market segment without consideration to distance),

- The most important emitive markets in European urban tourism are German and British which generate more than 40% of all travels;
- Except Germans and British people, among foreign visitors to most towns the most represented are tourists from the USA, Italy, France and Japan, and more commonly to towns travel Europeans from developed small countries of northwest Europe,
- Sightseeing is the most often activity of the visitors to towns, and main motives for visits are introduction to cultural and historical inheritance, enjoyment in atmosphere, food and drink, shopping,
- Because of often attractions people travel to towns more than because occasionally organized cultural events,
- Museums are the most visited attractions (51% of answers) in almost all towns,
- Visitors of the towns are more likely to spend more than traditional resting and swimming tourists.

Analysis of motivation of touristic journey (including business travels) identifies the following reasons that explain why people go on holiday to urban touristic destinations:

- Fulfillment of a wish
- Shopping
- Wish to escape from every day life
- Tendency for relaxation and holiday
- Chance for a game
- Prestige, since different destinations can provide to a person to be seen in society
- Social interaction
- Chances to learn

**Table 2:** Aims of visits to towns [9]

<b>Aim</b>	<b>%</b>
Business and professional	46
Holiday, recreation and holidays	27
Visit to friends and relatives	8
Health treatment	2
Others	18

Since it is possible to identify these reasons, it is possible to classify the tourists. For example, Cohen [5] differs four types of touristic passengers :

1. *The mass tourist* – go on holiday which are organized to details. Their contact with domestic community is minimal.
2. *The individual mass tourist* – use similar advantages as mass tourists, but want to visit other sights whose visit is not organized by agency.
3. *The explorers* – organize their journeys by themselves and want to experience the social and cultural living style of community they visit.
4. *The drifters* – they do not want any contact with other tourists, they want to live with domestic community.

On the basis of stated sources on European touristic market, there are these long-term trends in urban tourism:

- The participation of domestic guests in structure of visitors is increased in most of European cities,
- The usage of internet grows during organization of visit to cities,
- Usage of planes is increasing when people are arriving to cities because of low cost companies that offer better flights,
- Big cities are still destinations that must be seen but there is growth in interest for a visit to smaller (unknown) cities;
- Because of curiosity people more and more travel to cities from middle, eastern and southern Europe and new members of spread EU, so more intensive growth is predicted for eastern-European cities from Bulgaria and Romania, including cities from Serbia,
- The competition is more and more harsh for every visitor, but the offer is higher than demand,
- Attention is higher and higher for creation of specially recognizable urban product with emphasis to authenticity (cooking, urban infrastructure, fashion, atmosphere, ambience, etc.),
- There is a trend of connection of traditional cultural experience and new interesting actions of accommodation in cities,
- Visits to cities grow faster than traditional holidays in Europe.

### 3. URBAN TOURISM IN SERBIA

Currently the most important touristic product of Serbia are its cities. According to data of Republic bureau for statistics, in 2005. the leading urban touristic centers were Belgrade, Novi Sad, Nis and Subotica. Only these four cities visited over 780.000 tourists, domestic and foreign, and there were 1.420.000 accommodations which is 40% of total number of income of tourists of 22% of total number of accommodations in Serbia. These four cities absorbed over 70% of foreign tourists that visit our country and our accommodation in Serbia. When you calculate data for other cities, these numbers are even higher. Reason, currently, are relatively higher popularity of urban tourism in relation to the rest of touristic offer of Serbia should be found in their specific characteristic as cultural and historical and business and administrative centers as well as characteristics of political and economic and general and social development of the country. In dependence on touristic politics and strategy of further development of our tourism will depend on their future participation in touristic turnover with possibilities of oscillations up and down [5].

Belgrade is the most important domestic touristic destination which is seen through its participation in touristic turnover in Republic of Serbia. Out of total touristic turnover on the level of the Republic, the city participates with 32.5% of arrivals and 18% of accommodations. According to data of the Republic and Urban bureau for statistics 60% of arrivals and accommodation of foreign tourists in the Republic is realized in Belgrade itself.

In 2008. in the Republic of Serbia were 2.266.166 guests (2% less than the same period in 2007, or index 98), out of which domestic are 1.619.672 (index 101), which is 71% of total number of guests, and foreign 646.494 (index 93) or 29% of total number of guests.[6]

**Table 3:** Number of tourists by types of touristic places in 2008. [10]

	Total	Index 2008/2007.	Domestic guests	Index 2008/2007.	Foreign guests	Index 2008/2007.
Republic of Serbia	2,266.166	98	1,619.672	101	646.494	93
Main administrative centres	772.251	94	360.400	104	411.851	87
Spa places	366.098	95	343.063	96	23.035	94
Mountain places	448.854	101	409.028	100	39.826	110
Other touristic places	577.208	102	432.700	101	144.508	107
Other places	101.755	108	74.481	114	27.274	95

In 2008. there were 7.334.106 of accommodation (index 100), out of which domestic tourists were 5.935.219 of accommodations (index 101), which makes 81% of total number of accommodations, and foreign 1.398.887 (index 95), which is 19% of total number of accommodations. Measured by number of fulfilled accommodations, domestic guests were more in spa places (38%) then mountain places (30%) etc. Foreign guests were in main administrative centers (60%), then other touristic places (19%) etc.

**Table 4.** Fulfilled accommodations by types of touristic places in 2008. [10]

	Total	Index 2008/2007.	Domestic guests	Index 2008/2007.	Foreign guests	Index 2008/2007.
Republic of Serbia	7,334.106	100	5,935.219	101	1,398.887	95
Main administrative centers	1,417.859	93	584.110	99	833.749	89
Spa places	2,367.730	101	2,266.766	101	100.964	110
Mountain places	1,912.008	99	1,776.294	98	135.714	107
Other touristic places	1,377.867	105	1,101.637	105	276.230	107
Other places	258.642	117	206.412	126	52.230	90

According to analysis of existing condition, it is evident that Serbia has conditions on which it can built touristic offer and image of destination of urban tourism in long-term. The research have shown that cultural and historical inheritance, museums and galleries, shows and plays, sport and other manifestations, are popular activities of visiter, foreign and domestic, during their stay in our urban destinations. However, as urban touristic



resources are not managed as touristic attractions, guests are not satisfied by what we have to offer in this segment.

We miss not only the chance to build better image based on offer of these attractions in long-term, but in opposite, does not contribute that in Serbian urban destinations there is a fortune of touristically attractive resources. At the same time, we miss the chance to use the existing, potential touristic demand, which would provide additional means for maintenance and development.

If we want to start systematic development of Serbia as destination of urban tourism, it is necessary to increase the level of quality of presentation and interpretation of urban touristic resources. Also, it is necessary to enable visitors and all touristic distributive system to come to information about the offer of urban touristic destination in easy way.

In that context, the strategic aim of development of urban tourism in Serbia would be that in the following years: *We create a key mass of touristic products which are presented in good way, interpreted in modern way and professionally promoted which are integrated in offer of urban touristic destinations and create image of destinations rich in touristic offer that is well thought off and have lot of contents, to make satisfaction by visit of existing visitors, stimulate spending, increase a season, attract new market segments and increase domestic demand.*

In order to fulfill strategic aim, it is necessary to set certain conditions. Since there is a demand, of foreign and domestic visitors, priorities are these [7]:

1. Create positive surrounding that will increase initiatives for development of urban touristic products
2. Set a system of organization and mechanisms of inter-sector cooperation
3. Increase level of knowledge and skills necessary for development of touristic products of good quality
4. Increase the standard of interpretation, equipment and quality of urban touristic products
5. Improve the system of flow of information, promotion and distribution of urban touristic products.

#### 4. CONCLUSION

In conditions of growing globalization of world economy, every country tries to use its comparative and competitive advantages, in order to provide long-term increase of living standard of population. In the last ten years there has been growing importance of service sector in international exchange among which tourism takes important place. Potentials of Serbia for development of urban tourism are various and important, and only their small part is activated. Belgrade as one of the biggest cities on Balkan has a great touristic potential that is not used in full. Belgrade is the center of culture, tradition, art, sport, business. Important potentials for development of urban tourism have Novi Sad and Nis too. However, Serbian touristic products are not adequately developed or commercial of international touristic market although they have many attractions and values. Serbia has to improve competitiveness in great deal and attraction of touristic products through respectable world experiences and its own innovations, relying on those products and business sectors in tourism that have a global perspective and where Serbia can build global competitiveness.

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## **TAX AS LEGAL INSTRUMENT AND ITS INFLUENCE ON DEVELOPMENT OF BUSINESS ENTITIES' ECONOMY WITH RETROSPECTIVE VIEW ON VAT**

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**Summary:** *Taxes as well as other forms of public incomes (incomes from public property, contributions, dues, customs, parafiscalities, money form primary emission of the central bank, public indebtedness, donations, etc.) are funds collected by the state, i.e. social community and other public-legal bodies for covering the expenditures. By the taxation policy (subventions, tax relieves, tax exemptions) a state can act on forwarding the economic growth of certain regions, underdeveloped areas, but also prevent the excessive concentration of industry in particular regions or industrial centers and by additional forms of taxes on capacities located in such manner.*

**Key words:** *tax, economy, bank.*

### **1. INTRODUCTION**

Modern taxation systems are characterized by the trend of mutual approaching and adaptation. An exceptional role in the process has been played by value added tax, the structure of which has been harmonized to the largest degree within the European integrated countries. In terms of fiscal policy, the harmonization denotes according some taxes, taxation systems and taxation policy measures between states. The harmonization of expendable taxes represents one of the unavoidable conditions for cooperation with the European Union so that the states directed to that market build-in similar tax solution as well [7, pg. 4].

There are many types of taxes, some of which are easier and some more difficult to collect. In less developed countries predominant are those more easily collected, the indirect taxes because they attach themselves to goods and services. In less developed countries predominant are those more easily collected, the indirect taxes because they attach themselves to goods and services. Although they are more difficult to be collected, they even make up to 90% of the total tax yields in developed countries. Accordingly, their influence on a state budget is immeasurably important.

### **2. TAXES**

There are four significant constitutive elements that make the essence of tax. Tax giving presupposes existence of a taxable object (the tax object) and subject the economic power is held of (the taxpayer). The two elements are of qualitative nature and determine the sum of the tax income. Linked to them are two other bases, tax source and tax actuator. The quantitative elements determining tax assessment are contained in adequate combining of tax base and the rate at which the tax is paid [7, pg. 49].

### 3. TAX PRINCIPLES

Each tax system as well as the taxation policy of certain social-political community relies on a certain number of tax principles or postulates, forming its basis. Every tax system is certainly a reflection of the existing socio-economic and political relations, and accordingly the tax principles have to be conceived so that they serve the given public order.

The most important outline of the tax principles is given by the famous theorist of English classical school, **Adam Smith**. Those principles are known under name of “**Four canons**”.

**I principle:** Every citizen is obligated to contribute to satisfying the needs of the state and according to possibilities proportionally to its income enjoying under protection of the state. Herein, **the principle of generality and proportionality of tax** is portended.

**II principle: The principle of tax determination** - each tax should be determined by law, and not arbitrary; the time and means of payment and the amount to be given have to be clear and specified (clear to the taxpayer and any other competent entity).

**III principle:** Each tax should be paid in the most appropriate time and so that the payment is favourable for the tax payer.

**IV principle:** It is related to overheads on the assessment and collection of the tax duties.

**Wagner's system of tax principles** by its orderliness and clearness is the most famous and the most acknowledged system of tax principles, classifying them into four groups:

**The financial-political principle:** - profusion, adaptability, elasticity. The financial principle requires the taxes to be such so that, when there are no other income sources, they cover all public expenditures, meaning that they should be profuse and productive. It is **economic elasticity**. **The economic-political principle-** Each radical change in taxation methods represents the ground for economical disturbances in the country, even for crisis.

**Socio-political principle-** This principle insists on **generality and equity of taxation**. The taxes should be equitable. In order to achieve the principle of equity and to realize the goal in practice, two conditions should be previously fulfilled, being:

that the taxes are general and

that the taxes are even.

**The administrative-political principle** – These principles have been established in mutual interest of both tax administration and tax payers. These principles insist on **the principle of determination** of tax, then on **the principle of accommodation** or **comfort** and **the principle of economy** in duties collection.

### 4. TAXATION GOALS

Each state creates and conducts macrofinancial policy two main levers of which are taxation policy and monetary credit policy [6, pg. 30].

Taxes are main form of forming public resources that act as the source of covering public expenditures of a modern state. Accordingly, it can be concluded that the basic purpose of taxation would be ensuring enough resources for performance of various functions of a state. Various economic-political goals can be realized as well. In modern state taxes are used as one of highly efficient instruments of economic and social policy. By applying taxes mostly achieved are: Fixed and non-fixed goals.

Along with development of socio-political systems the taxation purposes have changed as well. Thus, in the old and middle age, the purposes were exclusively fiscal, since the taxed were exclusively the source of funds for satisfying the needs of the state and their profusion was one of the main characteristics.

However, due to diverse and numerous effects caused by any tax payment on the tax payer, one cannot speak at all on some neutrality of taxes, neither then nor before.

Taxes have the fiscal purpose when their main purpose is introduction of new financial resources collection, necessary for financing public expenditures related to covering social needs.

**Non-fiscal goals** of taxation are such goals which, today, according to modern financial theory and policy, should be accomplished through tax activity in the sphere of economic policy, stabilization and regulation of domestic consumption, level and structure of employment, etc. Taxes should, with the budget policy on the whole, ensure certain economic, social, political, demographical and other developing activities. Taxes as instruments of economic policy are a highly efficient means in managing economic flows and especially of the consumption in economic policy of a country. Today, mostly accepted standpoint in financial theory is that the tax activity is the most efficient in regulating domestic consumption, demand and allocation of national income.

Each tax is reflected on prices. Indirect taxes- regularly, direct taxes- under certain conditions. Indirect taxes through oversetting and adding-onto the product or service price, lead to the price increase. Direct system, through the tendency of compensating the subject's tax burden, leads to the price increase. By changing the taxation rate or burden, state can affect the development of certain branches and fields, whether by burdening

them or by reducing. For example: By reducing the tax burden, deferral of payments, forwarded amortization, releasing the amortization from taxation of certain branches, fields and similar, their growth and modernization can be stimulated. It is a powerful allocation function of taxes. Not only that the funds are allocated but the production factors as well.

Therefore, the tax system represents a set of institutes, institutions, instruments and measures forming one whole and serving as the foundation for conducting certain taxation policy. Taxation system is only a constituent part of fiscal system, system of public expenditures, budget system and the corresponding fiscal policy.

### ***Value-Added Tax (VAT)***

Value added tax (Impôt sur la valeur ajoutée) does not represent some new form of turnover tax but it is a net all phase turnover tax. This expendable tax is levied in every phase of turnover cycle but in a way that it affects only the value which in the phase is added by the tax payer. Going over from phase to phase, the goods are always taxed but the tax is paid on the value that is added so that the previously paid tax is excluded. The added value is the value that the producer, entity providing service, retail or wholesale trader, is adding to the raw materials or other provided inputs (with the exception of labour) before selling the new or advanced product or performing the service.

Unlike the gross all phase turnover tax where the tax base in the taxed phase of the turnover cycle is calculated on the total gross compensation, at net turnover tax, the tax base is represented by the difference between the supplying and selling cost of a product in the certain turnover phase.

In modern world, the value added tax is the most spread form of general tax on consumption. Only Australia and the USA do not apply it, out of all OECD member-countries. Such form of taxes is being successfully spread in developing and transition countries. The extension of value added tax in today's taxation systems can be explained by the advantages over the other forms of turnover taxation. The reason for it should also be looked for in the unambiguous recommendation and technical support at introduction of this tax by powerful international financial organizations (IMF and World Bank) [3].

There are two methods for determining the added value. The direct method is directed to direct assessment of tax base, i.e. the added value. For the calculation, two procedures can be used: In the form of method of adding and method of subtraction. At methods of adding, the added value is determined by summing all elements of the prices forming the value (pays, profit, authorial compensation, interests, and annuities). In practical application this method encounters on difficult to surmount difficulties conditioned by the need of calculating the taxable yield, which takes time, includes certain dose of voluntarism and complicates planning and more equal inflow of incomes from the added value taxation [3]. According to the taxation treatment of capital goods (buildings and equipment), three forms of value added taxes are differentiated:

- expendable form of value added tax;
- Income-based value added tax, and
- gross added value tax.

The application of expendable form of value added tax affects increase of prices of the taxed products which can have some effects on the inclination on investing into economy. The gross added value tax does not allow deduction of value added tax paid at provision of capital goods, so that the investments into capital goods are actually taxed twice: once when the goods were provided and the other time when the goods produced by them are sold to the consumers. That is why this form of value added tax completely destimulates investing and is not present in practice [3].

The explanation for dominant presence of value added tax among turnover taxes is found in the advantages this taxation form has related to other forms of turnover taxes. It is common in literature that the characteristics of value added tax are compared with the characteristics of single-phased turnover tax in retail. It is pointed out that along with the application of same taxation rate and same coverage of these two forms of turnover tax in economic view would be equivalent [3]. The final price in retail actually represents the sum of all added values according to phases of production and sale.

Pointed out in financial literature are determined relative advantages of value added tax in comparison with the retail tax. It is common in literature that the characteristics of value added tax are compared with the characteristics of single-phased turnover tax in retail. (1) greater profusion; (2) efficacy in opposing the tax evasion; (3) neutrality in foreign trade transactions; (4) the capability of including services' (5) the possibility of exempting inputs from taxation; (6) political reasons (prerequisite for affiliating with the European Union).

(1) Value added tax is more profuse than the retail tax due to extension of the taxation objects. The turnover tax is based on the idea that the tax is paid only on products being used for final consumption. In that case, it is sufficient to give a statement that the supply will only be used as a reproduction material or for further sale, and the turnover tax needs not to be paid.

(2) Value added tax is more immune to tax evasion than the turnover tax in retail trade. It is beyond doubt that none of the taxation forms is immune to evasion of paying the tax duty but at value added tax those possibilities are limited to the greatest extent due to applied taxation technique. As already mentioned, it is about the tax that

is applied in each phase of turnover cycle and the seller is obligated to calculate the tax on the total invoiced amount of its deliveries. Then he has the right to deduct tax paid through the purchasing price of his suppliers. In other words, in order to be granted the right to the deduction on the basis of tax that is paid at the supply, the seller also needs to present the invoice wherein the supplier has specified the amount of the tax calculated. Further, he has to submit the invoice in the following chain as well, being interested in documenting himself his right on tax duty deduction for the amount of previously paid tax. In that way, each participant in the turnover chain is interested in the deal coursing the legal way because only in that way do they have the right to tax credit.

(3) Value added tax enables much better position in international trade to the country applying it. The essence is in the fact that this tax provides neutrality in foreign trade transactions, meaning that exporting goods and services should be completely tax free, so that all taxes paid before the moment of export are returned to the exporter. He has the right, based on the export declaration, to get the return from the budget of the tax paid at supplies used for production of the exported products. That is why the exported product is cheaper in international trade and the importing country is obligated to tax the goods being imported by domestic taxes. In general, even today's retail tax is not paid when the goods is exported and all duties paid in the previous phases (e.g. taxes on services rendered), are entered into the export price structure because the instrument of their return does not exist. The goods are made more expensive for the amount, making it less competitive in the international trade.

(4) Value added tax enables taxation of the services as well without cumulative effect present at the retail turnover tax.

(5) Value added tax allows that all inputs are exempted from taxation, therewith the buyer being obligated (for getting the tax credit) to prove that the supplied goods is used as an input.

(6) Value added tax represents a prerequisite for entering into any institutional arrangements with the European Union. For the purpose of creating a unique market, the European Community has determined for introducing a unique form of turnover tax in the form of all phase net turnover tax or value added tax. Nowadays, all other European countries that either compete for acceptance in the European Union or else have various forms of associations with it, are obliged to apply this taxation form in order to approach their economies to solutions valid in the unique market of the European Union. They are demanded to introduce value added tax in accordance with the model set by the Sixth directive.

It is pointed out in financial literature that this form of taxation besides its bright sides also has some negative characteristics. It is considered that main disadvantages of this tax are related to the process of administering it because, as the more complicated form of taxation it implies speciality and capability for application, both of the tax authorities and of tax payers. Value added tax relatively has an absolutely large number of payers as well, meaning that it is somewhat more expensive for collection.

Value added tax requires centralization of tax authority implying unique prescription and its applicability on the whole territory of the state introducing it. By the introduction at the level of federal units, it loses its essence and turns into a narrower local tax not fulfilling the role in the fiscal system that has been primarily assigned to it (the allocation function). The problem's essence is in the fact that the successive assessment and collection of taxes from producer to the retail dealer, completely changes the basis of territorial belonging of the tax. Due to it, the relations with regards to tax incomes belonging between central government and federal units have to be precisely regulated by regulations.

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## PRIVATIZATION AND FINANCIAL MARKETS

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**Summary:** *One of the key levers of transition in countries of central and east Europe is privatization process. Private property and clearly defined proprietary rights should result in increase of efficiency of economy, and through the possibility of free exchange of proprietary rights the result of privatization should also be development of capital markets, i.e. financial markets. Privatization practice and results have shown that the informal rules, cultural patterns, customs and traditions have has an extremely powerful influence in this segment of tradition as well. Also highly important is the establishment of legal state, legal regulations and legal frame wherein the regulation is conducted. Some laws have been performed, but we are still facing the serious problem of implementation of law in practice. It is important to take care when to start with promotion of investment possibilities and advantages of a country. If it is started too early, in the moment when we do not have anything to promote, it can happen that the foreigners come, see the objective state which is not that favourable and to go back unfinished their business.*

**Key words:** *privatization, finance, financial markets.*

### INTRODUCTION

Privatization represents the process of individual's facing with new ambient and forming awareness with regards to it. Privatization implies series of legal-accounting activities over a mass of information surpassing the domain of manual procedure and actualizes the method of automatic data processing.

Primary reason of starting the privatization process is the fact that companies under private property record higher efficiency and profitability in relation to the state-owned companies. On the other hand, data show that the consequences of privatization through sale by public offering of shares are highly visible on the capital markets, because there undoubtedly comes to increase of market volume and market capitalization on national markets [2, pg. 24].

The successfulness of privatization process is conditioned by selection of an adequate method for each concrete market. Basic conditions are:

- stable macroeconomic ambient
- appropriate economic policy
- Stable system of processes and measures regulating the rules of the game in the overall economy [5, pg. 72].

### 2. BASIC MODELS OF PRIVATIZATION

Basic dilemma related to the model of privatization is selecting the model of privatization. All models of privatization can be considered from two aspects:

1. Paid and
2. free privatizations.

Privatization can be viewed as a process with external and internal owners.

**Three basic models of privatization are:**

1. Model of sale (market privatization)
2. Voucher model and
3. Share-holding model (stock-holding) of employees, i.e. internal or insider privatization.

### 3. THE SALE MODEL

The sale model appears as the most desirable form of ownership transformation of state-owned, i.e. social property. It has been observed that this form of privatization encounters significant limitations, and thus it is rarely recommended to economies with poor performances.

The problem of deficiencies appears with three important limitations:

1. Domestic resources are very modest, whereas foreign capital is highly choosy and is looking for the best offers for investment;
2. Limitation also represents the absence of capital market, wherein its fragile and shallow unformed structure develops;
3. Problems with monopolistic position of a number of large state-owned companies that have developed in accordance with the requirements of state-controlled economy.

Under conditions of economies in transition, this is the most prospective way towards extensive restructuring; the company is in a captivated state, finding sufficiently motivated owners with necessary resources for purchase and all elements of the restructuring. Possibility of application of this model of privatization is in accord with general level of development of privatization process.

Selling (the capital of) company to a dominant owner has proven superior from the view of economic efficiency. It usually brings good management, meaning:

- recapitalization of company,
- business expansion,
- reorganizing,
- strengthening of discipline,
- more entrepreneurship.

It is especially favourable if the serious foreign investor has become the dominant owner, due to:

- reliability, greater financial capacities, possibilities of orientation to foreign market and similar.

### 4. VOUCHER PRIVATIZATION

The voucher privatization has had huge support of a large number of experts and advisors. Creating the voucher scheme and organization of auctions at which the selling of the company included into the program of mass privatization will be performed, presupposes the sequence of mutually related decisions directly influencing on the costs and success of this process.

#### **Good sides of this model are:**

- Free allocation of shares is fair, because each citizen claims the right to public ownership;
- It is suitable for countries where capital market does not exist;
- It encourages formation of secondary market and appropriate behaviours at the market agents;
- It provides the fastest way of privatizing a large scope of the state property.
- The necessary concentration of proprietorship will be provided by means of market, by buying and selling shares and with the assistance of intermediators, and thus the final and desired allocation of proprietary rights will be obtained.

#### **Bad sides of this model are:**

- It is leaving the economy without an expected income from privatization;
- It establishes a great dispersion of ownerships that could jeopardize the efficiency of ownership control;
- It does not provide necessary resources for the company restructuring.

In deliberating good and bad sides of this model, it is thought that the effect of fastness of the process overpowers some of the negative characteristics. The voucher privatization represents a large theoretical, elegant and relatively fast model of privatization, highly favourable political rating of the government executing it. Although it does not bring any earnings to the state, it has been proven that the loss is compensated by swiftness and fairness. The voucher privatization is more transparent than the other models and by it the problems of estimation of values are avoided, which are present at the other forms of privatization.

### 5. THE SHAREHOLDING MODEL

The share-holding of the employees is the method of insider privatization. The share-holding of employees implies significant discounts on the price of shares (or partially free allocation) to managers and/or employees. It thus represents the combination of sale and free allocation, but by it the benefits of allocation are limited to the

employed in the given company. Deferred payment is usual, in order to overcome the problem of insufficient purchasing power of employees.

**Arguments against this type of privatization are:**

- The model will conserve the old managerial structure and the old business behaviour;
- It will produce conflict between internal and external owners, due to which the external owners will unwillingly invest in the company privatized in such manner;
- The managers and state administration will by means of this model will have the opportunity of realizing great gains and proprietarily benefit;
- The conflict of goals will appear, especially at the allocation to pays and dividends;
- The paradoxical behaviour characteristic for self-managing company will be kept....

Good sides of this model are his non-economic components:

- Share-holding of the employees can be a form of compensation for lost security of employment and some other benefits arising out of it;
- This model alleviates the possible opposition of the employees to the process of privatization...

The key question of successful transition towards market economy is setting the business operations of a company on new basis. One of the standard paths in the countries in transition is that through privatization of state-owned or social companies, the corporate management is improving and the competitive ambient is strengthened. The output of privatization was however, different in various transition economies.

The possibility of privatization and other market reforms to contribute to realization of goals of transition is greatly related to the institutional ambient in those economies. That is why the theoretical deliberations of transitions should incorporate the achievements of neo-institutionalized economy [1, pg. 123].

## **6. IMPACT OF PRIVATIZATION ON FINANCIAL MARKET DEVELOPMENT**

The level of development of financial markets is one of the basic indicators of investment potency of each economy, because financial markets represent "the brain" of integral market economy, according the yields of investors and creditors with the level of risk.

Primary reason of starting the privatization process is the fact that companies under private property record higher efficiency and profitability in relation to the state-owned companies. On the other hand, data show that the consequences of privatization through sale by public offering of shares are highly visible on the capital markets, because there undoubtedly comes to increase of market volume and market capitalization on national markets.

**Market development** is the process wherein changes are made in the size of the market, structure of the market or in the way the deals are being done on the market, with the purpose of increasing the market performances and in that way the benefits it has for the society.

**Market size** depends primarily on the magnitude of population in one country and its growth rates of "penetration" i.e. entering the population on the market, as well on whether the internationalization of the market is possible by introduction of products that could attract foreign investors [3].

**From the aspect of market structure**, development will be able to encourage by modifying the conditions for entering foreign market (e.g. by eliminating the entrance barriers) and by changing appropriate costs (e.g. by decreasing the fees and compensations in order to do business).

**From the aspect of manner in which financial services are performed** market development can be achieved by:

- Innovations that improve the ways of execution and distribution of services,
- Changes in pricing policy,
- Changes in the manner of performing business operations, i.e. in the way in which the market participants approach the client and in which they fulfill their contracted obligations.

Improvement of the performances of market will be perceived through improvement of one or more than the following indicators:

- decreasing costs of business operations on that market in relation to the costs on the other market,
- increase of the market quality is reflected, for example in greater transparency of prices and greater liquidity, increasing the market efficiency that is reflected, for example, in a shorter period necessary for clearing and balancing of accounts, increase of number of products and their stability, reflected in increase of:
- Number of instruments traded with,
- number of collective investment schemes,
- techniques used for acquiring capital,
- increase of scope of activities reflected for example in larger scope of:
- new capital formed on the market,
- selling of investment units in collective investment schemes and



- secondary trading.

**Priorities of regulations for development of transparent and fair market after mass privatization are:**

- Defining the share-holders' rights in privatized companies. This is a basic question in mass privatization wherein insiders dominate, having the interest to prevent the outside share-holders from enjoying the same rights at an equal basis;
- Regulation of operation of privatized and investment funds;
- Regulation of procedure of taking over the joint stock companies, i.e. of the process of consolidation of the ownership accompanying the mass privatization;
- Regulating business operations on public market [4].

## **7. INTERDEPENDENCE OF PRIVATIZATION AND CORPORATE MANAGEMENT**

Privatization and the very transition to private property, in them selves are not sufficient for good company management. In many countries, the legislation and regulations change in order to provide better business operations of the economy. Transition should be a complex of measures aimed at promoting corporate management. Three models of corporate management have pointed out in the world:

1. Anglo-Saxon
2. German
3. Japanese

with attributive different virtues but deficiencies as well.

In essence, good corporate management should be based on respecting the interests of the owner and on his influence on business operation of the company, i.e. managers.

Corporate management is one of the levers for attracting foreign investments, and the countries with weak legal systems they provide more spaces for abuse of share-holders rights and, thus, the investors can hardly protect their own interests. Although legal regulations sets relatively high standards regarding the transparency, availability of reliable and relevant data from stock market, publicity, and even the potential investors, believe little to information the companies are publishing. Thus the concept of corporate management always includes two key words:

1. responsibility and transparency.

And after great stock-market scandals that have shaken American and European corporations, to this concept two more categories have joined:

1. Moral and ethics

The situation in Serbia shows that there is the low level of quality of corporate management, poor protection of minority owners and inevitably low price of companies' shares on the market. Current state of corporate management in companies in Serbia is highly unfavorable. In semi-privatized heterogeneous sector, the property is dispersed, making difficult to the owners to have control over the companies, and the transferability of the proprietorship is limited by poor administration. Protection of the minority owners is insufficient. The basic direction of privatization in Serbia is its base upon the method of sale.

The most important among institutions disciplining companies are anti-monopolistic regulation, legal (judiciary protection of proprietorial rights), information detection and accounting and auditing regulation, well arranged financial system, receivership legislation and practice, anti-corruption policy [6].

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## **SOME NEW TENDENCIES OF INDEMNIFICATION IN INTERNATIONAL AGREEMENTS**

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**Summary:** Diversity and numerousness of damage causes, as well as of forms and mechanisms for the compensation, have conditioned the need of the most significant international organizations- from the United Nations and its specialized agencies, the European Union and Council of Europe to the Hague Conference for International Private Law- dealing with this issue. Besides multilateral conventions brought by these international bodies and authorities so far, also numerous are bilateral agreements by which states sometimes mutually arrange some issues of indemnification. The international multilateral agreements wholly or partly related to the issue of compensation are recognizable both in the field of delict responsibility, especially if it arises from possession and use of dangerous objects and performance of dangerous activities and in the field of contractual responsibility, specially if it about damage incurred in transit of goods, passengers and luggage. The purpose of this paper is to point out to numerousness and variety of the international conventions and emphasize some of the new tendencies of indemnification present in them.

**Key words:** indemnification, international regulations, conventions, liability for damage, new tendencies.

### **1. INTRODUCTION**

Every human activity can also have as its consequence the incursion of damage. Damage can arise, by acting or non-acting of people, states, social organizations, economic entities. It can arise from dangerous objects, animals and plants and from natural phenomenon. Precisely due to diversity of forms and numerousness of causes of the incurred damage, conditioned under modern conditions by accelerated technical development, introduction of new technologies, strong intensity of social changes, poses before the international legal system new standards and necessity of constant advancement, accordance and, first of all, simplification of procedures in this field.

In modern world the greatest number of all procedures before courts, arbitration is related to determination of type and level of damage and outcoming the adequate indemnification. Thus, in the United States of America, the level of paid financial amounts in the name of indemnification, surpasses each year the amount of realized profits of the greatest economic giants, such as, for example, "Microsoft" [15].

Protection from incurrence and consequences of damage, realization of compensation and collection for the damage, require foundation of special indemnification funds and insurance liability. Provisions on constituting international indemnity funds and compulsory insurance, i.e. on liability of entering into insurance agreement or provision of some other financial warranty for covering damage liabilities, are mostly found in all international conventions this paper is discussing about. Also, in all latest conventions included are procedural provisions concerning the rules of court procedures or some other appropriate procedure without aggravating formalities, whereby the uniformity in executing them is achieved, the necessary efficiency in realization of indemnity claims, as well as better protection and legal security of the injured parties.

By a simple procedure, efficiency in damage claims realization and by severe sanctioning of all parties incurring damage, strengthening of consciousness and liability is achieved, to all types of goods and interests of the parties, and therewith the increase of level of common and individual security as well. Due to the mentioned reasons, it is socially justified and beneficial that each party causing damage, is obligated to compensate for it completely, contributing also to preventive anticipation of future damage arising.

## 2. NEW TYPES OF DAMAGES IN INTERNATIONAL REGULATION

Parallel with technical development of society, modern technologies and inventions evading legal control, as well as with increase of living standard, a need appeared, both on national and international level, for arranging the matter of liability for possible damages arising out of such development, activity or procedures.

**Liability for damage by dangerous object or dangerous activity** is the subject of regulatory rules both in national and international legislation. This type of damage and liability is known from earlier times, n=but the new era of computerization and highly sophisticated technology is constantly modifying it.

According to our national legislation, damage arisen with regards to a dangerous object, i.e. dangerous activity is considered to be the damage arising out of the object, i.e. activity, unless proven that they have not been the cause of damage. Objects from which excessive damage danger impends are dangerous objects, and those are all movable and immovable objects that by their position, characteristics or their very existence represent increased danger to the ambient. They create risk from damage that cannot always be avoided, not even at the greatest possible attention, and that is precisely what makes them dangerous. Dangerous activity is any human activity from which greater, unusual danger of damage threatens, that cannot be avoided at all times not with the greatest attention. Liable for damage from dangerous object is its holder, and for damage from dangerous activity is the party dealing with it.

International regulation is highly varied and rather indentured with regards to the issue. Thus, liability for damages arising out of peacetime manufacturing and application of nuclear energy and the very possessing nuclear plants is standardized, first of all, by the Vienna Convention on Civil liability for nuclear damages since 21<sup>st</sup> May 1963, setting the minimum standards for ensuring financial protection from damages that could arise during peaceful application of nuclear energy. According to the Convention, The nuclear damage signifies death, bodily injury, loss or damage of goods, arising or are the consequence of radioactive properties or combination of the properties with poisonous explosive or other dangerous properties of nuclear fuels or radioactive products or wastes found in one nuclear plant, as well as nuclear material coming from nuclear plant, produced in or being sent out of it. Liable for nuclear damage is the user of nuclear plant according to the principles of objective liability. The convention of liability towards third parties in the field of nuclear energy, concluded in Paris on 29th July 1960, predicts that the operator of nuclear plant is liable for all damages inflicted to parties or their property by the very nuclear plant or in relation to it. By the Convention concluded in Brussels on 31<sup>st</sup> January 1963, the Paris Convention has been complemented. The mutual protocol regarding application of Vienna and Paris Convention, enacted in Vienna on 21<sup>st</sup> September 1988, is purposed to determine the relation between these two conventions and solve any collision in their application. The convention on additional indemnification for nuclear damages was concluded in Vienna on 12<sup>th</sup> September 1977 for the purpose of increasing the indemnification amounts for nuclear damages. The Convention on Civil liability at marine transport of nuclear material was concluded in Brussels on 17<sup>th</sup> December 1971.

Motor vehicles and aircrafts in atmospheric and beyond-atmospheric space, as dangerous objects, are the subject of special regulation in the international conventions. The European Convention on Civil Liability for damage caused by motor vehicle was enacted by the Council of Europe on 14 May 1973, with the purpose of equalizing the legal matter in this field and protection of injured parties. In the framework of the Hague Convention for international private law on 4<sup>th</sup> May 1971, the Convention on Law applied for traffic accidents has been brought, determining the competent law to be applied on civil out-contractual liability arising out of traffic accident, predicting application of rule *lex loci delicti commissi*. The Convention on Liability for Damage that the foreign aircraft incurs to third parties on the surface of the Earth from 7<sup>th</sup> October 1952, predicts liability of the operator, i.e. the user of the aircraft for any damage incurred to parties on the ground by the flying aircraft. The Convention on International Obligation of Compensation for damage incurred by space aircraft from 29<sup>th</sup> March 1972 includes international rules and procedures regarding the obligation of compensating for the damages incurred by the space crafts to the parties on the Earth or other places, with the intention to provide immediate payment of fair and complete indemnity to the injured parties. The absolute liability for paying the compensation for damage is on the state launching the craft.

The regime of dangerous activity includes dangerous goods transport (nuclear material, nuclear fuel, radioactive products and wastes, then poisons, chemicals and other harmful substances) on any transport route. ( by sea, rivers, lakes, road, railway or air, the transport included under a special legal regime (special transport, safety measures, labeling. Dangerous materials transport is leading to new types of risks and increases the endangerment of people, assets and environment. These substances in themselves, or due to explosion, inflammability or leakage, represent extreme danger and potential cause of the so called mass damages. Special national regulations on liability for damage caused by dangerous material transport are rare and often, with the exception of road transport, not even the insurance of dangerous goods transport is required. The Convention on civic-legal liability for damage incurred by dangerous goods transport by road, railway or inland channels from 10<sup>th</sup> October 1989, sets the type of damage, liability limits, compulsory insurance and also the procedure of realization of indemnity claim. It does not define the concept of dangerous good, but in that regard it is

referencing to the list of dangerous goods- ADR (Article 1, point 9). The Convention predicts that “transport” includes the period from beginning of the loading process into the transport means to the end of the process of unloading the goods. The International Convention on Liability and indemnification with regards to dangerous and harmful substances transport by sea from 3<sup>rd</sup> May 1996, includes damages due to death, bodily injuries, loss and damage of property outside the ship, environment contamination and the costs for preventive measures undertaken in regards to it. This international convention, unlike the previous one, enters into more detailed identification of the substances considered dangerous and harmful, indicating the legal documents describing those matters, such as the European Agreement on the International Road Transport of Dangerous Goods (ADR) adopted on 30<sup>th</sup> September and the Hamburg rules containing special rules on dangerous goods transport.

**Liability for damages arisen in international transport of passengers and transport of goods** are regulated by numerous international conventions. The Athens Convention on transport of passengers and their luggage by sea from 13<sup>th</sup> December 1974 are applied on the international marine transport. It defines “the carrier”, “the real carrier” and “the passenger”, as well as types of damages, borders and the level of liability for damage. The United Nation’s Convention on liability of entrepreneur of transport terminals in international trade from 19<sup>th</sup> April 1991, uniquely orders the international rules on liability for the period while the goods is found in the warehouses, ports and similar under control of persons providing special services related to the goods (warehousing, loading, unloading, processing, packing). The United Nation’s Convention on multimodal transport of goods was adopted in Geneva on 24<sup>th</sup> May 1980, with the purpose of regulating essential questions in one international act of multimodal transport of goods in international trade. Besides these special multilateral conventions, the international rules on liability for damage in international transport are also included into many other conventions and international acts, such as: The International Convention for unification of certain rules on bill of lading from 15<sup>th</sup> August 1924 (known as the Hague Rules), the United Nation’s Convention on Marine Transport of Goods- Hamburg Rules from 31<sup>st</sup> March 1978, The Hague-Visbian Rules from 1979, Warsaw Convention from 12<sup>th</sup> October 1929 and the Hague Protocol from 1955 with Warsaw Convention, ordering the liability of air transporter, then conventions on road transport of goods (CMR), passengers and luggage (CVR), rail transport (COTIF) [9]. When speaking about marine transport of goods, Hamburg Rules contain highly precise rules on liability of transporter (basis, duration, borders), and also the rules of liability of the sender.

**Liability for consumers’ health and property** is the newest form of liability for damage on national and international plan. By the European Convention on Liability for the products causing injuries and death from 1977, an attempt was made to uniformly regulate the liability of the producer for damages suffered by the direct user of the defect product. The harmful product producer is liable regardless of the fault and is obligated to pay the compensation to the injured party predicted by the Convention. Included here is also the instruction on equalizing the laws and other regulations of the member states on liability for defect products from 25<sup>th</sup> July 1985, valid in the European Union countries, and within the Hague Convention for international law from 2nd October 1973, also enacted is the Convention on the law applied in cases of liability of producer for its products.

**Civil-legal liability for acts of violence over parties** is also one of the newer forms of liability in international contracting law and also in national legislation. On 24<sup>th</sup> November 1983, the Council of Europe has brought the European Convention on indemnifying victims of violence which, from the reasons of equity and social solidarity has the purpose to solve the matter of indemnification of victims of intentional violent crimes suffering bodily injuries or health damage and victims alimanted by persons that have lost their life due to such crimes. According to this Convention, obligated to pay the indemnification (lost earnings, treatment and hospitalization expenses, burial costs and loss of alimony) is the state on the territory of which the crime has been committed and both to the citizens of the member states of the Convention and to the citizens of all member states of the Council of Europe with permanent residence in the state on the territory of which the crime has been committed. In this group in broader sense many conventions could be classified as well, concerning protection of human rights that contain the provisions on obligation of indemnity due to injuries of the rights. One of the latest conventions in the field- The Convention on Protection of Human Rights and human being dignity from the aspect of applied biology and medicine (1997) predicts the indemnification for any person suffering unnecessary damage as the result of medical intervention.

**Liability for harming the environment** is predicted by many international agreements recently concerned with factors influencing the quality of environment and thus on health of humans. The special emphasis is placed on protection of air, water and land from pollution. The complexity of the environmental preservation and protection is also viewed through the international regulations tending to provide adequate protection to the environment, to identify pollutants and determine their liability. The original problem of polluting seas by thrown out or leaked petrol and oils from the ships, has multiplied in the need of protecting land, air, climate system, biological variety, special ecosystems and other natural resources as well. Among others, enacted are: Conventions on over-border air pollution at large distances (1979), Basel’s Convention on control of over-border flow of dangerous wastes (1989), Vienna’s Convention on the Ozone Layer Protection (1985), Convention on over-border activities of industrial accidents (1992), Convention on biological variety (1992), Convention on the right of utilization of international water ways into non-navigable purposes (1997). by two conventions

concluded under favour of the Council of Europe, special protection has been provided to man and the environment by introduction of appropriate criminal law and civil law sanctions. In that sense the Convention on civil liability has been brought for damages arisen due to activities harmful to the environment (1993) based on the principles of Rio declaration from 1992 for the purpose of providing an adequate compensation for damages caused by the activities harmful to the environment and predict the means for preventing these activities and the restoration. The Convention on criminal law protection of environment (1998) determines the obligation of the contracting parties to predict in their regulations special criminal acts and administrative infringement for harmful actions endangering the environment, with the possibility of delivering criminal sanctions also including the measures of confiscation of assets and gains of the performers of the illegal acts.

**Liabilities for damage due to corruption** is predicted by the Council of Europe's on corruption from 01<sup>st</sup> November 2003, which is the constituent part of *acquis communautaire* ("Acquis" comprises all the EU Directives, regulations and decisions, as well as all legal principles and interpretation of the Court of Justice together with all international agreements wherein the European Community is the participant and by the relevant declarations and resolutions of the Council of Ministers of Europe. This convention is rooted in efforts in many years of the bodies of the Council of Europe to design mechanisms for fighting against corruption and in criminal and civil law. Preceding too its creation was the analysis of regulations applied in some countries, and the formulated obligations present the minimum of what the signing countries should accomplish. The purpose of this Convention is determined by its introductory article: that each state by its innate right should provide efficient legal instruments for those suffering damage the cause of which is corruption, so that the injured could defend their rights and interests, also including the possibility of indemnification. The convention defines corruption as looking for, offering, giving or receiving, indirectly or directly, of bribe or some other unjustifiable benefit or perspective of acquiring such benefit disturbing regular performance of some duty or behaviour asked from the bribe taker, unjustifiable benefit, i.e. persons with the perspective of acquiring such benefit. This definition enables application of the Convention in private and public sector, as well as on the international plan. The indemnification provided to the injured parties has to be full and can relate to a real damage, evaded profit and immaterial (intangible) damage. The right to indemnity must not be limited by some maximum amount, but with the level of damage in the concrete case, of course if the conditions of acquiring such right are previously fulfilled. Those conditions are the following: that the accused has committed or approved the act of corruption or that he failed to undertake reasonable measures in order to prevent the act of corruption; that the accuser has suffered the damage; that there is a causative relation between the corruption act and the damage [4]. The liability for the damage lies, besides on the one participating in the corruption on the employer of the perpetrator the organization of which was not good, or he/she did not undertake appropriate measures of supervision over the employees. The matter of indemnification can be especially significant in the sphere of public supplies, privatization and other procedures wherein selection is performed between several offers. The adequate application of the convention will provide those that due to corruption have lost their expected gain, because another bidder on the tender was chosen, that the loss is indemnified in the total amount.

Many other multilateral conventions dealing with problems outside civil liability touch on the issue of compensation for damage. Thus, according to the agreement on Trade aspects of intellectual property rights (TRIPS Agreement from 1994) the person injuring someone's right of intellectual property is under obligation to pay to the titular an adequate indemnification. The provisions on indemnification are also included in the MOR Convention on indemnification for accidents at work and due to professional diseases (1925) and other.

### 3. LEGAL NATURE AND LIMITS FOR LIABILITIES FOR DAMAGE

In three great areas, wherein especially great damages can appear- application of nuclear energy into peaceful purposes, transportation of goods, passengers and luggage and environmental protection, the civil law liability for damage rests on principles of objective liability, with a possibility of limiting the liability and exculpating from it in strictly reduced cases.

The key international agreements in the field of liability for nuclear damage are: Brussels's, Paris' and Vienna's convention are based on principles of absolute, regardless of the fault, liability of the operator, i.e. manager of nuclear plant and nuclear ship, meaning that only that person can be appealed and obligated to compensate for the damage. Along with it, the Convention on additional indemnification for nuclear damage from 1997, besides the predicted amounts of indemnity, also predicts making available the public funds for the purpose of complete compensation, therewith implementing the international liability of the state as well for that kind of damage.

Modern indemnification law, however, also starts from the principle "ubi emolumentum ubi onus" – the one who benefits from an object, should bear the risk related to it, so that the liability is not related only to the owner of the dangerous thing and performer of dangerous activity, but also to their user (operator, manager on the apparatus, transporter, and transport user). the way to objective liability for damage is especially transparent in the field of aeronautical right to indemnity where subjective liability was introduced by Warsaw convention

(1929), based on assumed guilt of the transporter. By The Hague Protocol (1955) the Warsaw Convention was revised, among other, in the part related to off-contractual liability whereby the level of the sum the transporter is liable is doubled. By Guadalajara Convention (1961), the Warsaw Convention was complemented for the purpose of equalizing some rules related to international air space, performed by a party not being a transporter according to the agreement on transporting, but performing the transport based in authorizations obtained from the contracting transporter. When speaking about the liability of both of the mentioned transporters, both contractual and real fall under the regime of Warsaw Convention. Warsaw Convention, and also The Hague Protocol and Guadalajara Convention have not receded from primarily established concept of subjective liability, which has often lead to prolonged disputes [8]. Namely, due to unforeseeable causes and high damages, the air transporter was in the situation to often try to free from the liability by proving, according to the article 20 of the Warsaw Convention that he and the person in his service have "undertaken all necessary measures in order to avoid the damage". By Guatemala Protocol (1971), objective liability was finally introduced, obligating the air company that it owes to the passengers and its legal followers compensation by the very fact of the incurring damage, regardless of the fault. Also, Montreal Protocol no. 4 from 1975 has completely accepted objective liability of the transporter in the case of transporting objects (goods) by aircraft. The International Convention on liability and indemnity related to transport of dangerous and harmful substances by sea (1996) also knows the objective liability. In the convention on civil law liability for damage arisen by transport of dangerous goods by road, rail or inland waterways, the principle of objective liability of the transporter for damage was adopted.

Limiting the civil law liability for damage is mostly predicted by all international agreements. Vienna Convention has originally predicted that the state wherein a nuclear plant is situated, can limit the user's liability, but not to the amount less than 5 million dollars for each nuclear accident. By Protocol from 1997, this census is revised in 300 million of "special right of drawing", which is a multiply greater amount than it used to be. The international conventions on civil liability for damage caused by pollution by oil, also predicts the right of the ship's owner to limit its liability up to a certain amount, therewith to found a fund at the court before the claim for damage has been filed against him, by depositing the money amount or appropriate bank or other guarantee to the level of the liability. By founding such ad hoc guarantee fund, to which the claimant (the injured party) can freely access and collect from it its claims, the owner disables realization of the indemnity claim on his other assets and at the same time, frees his ship or the other property from seizure.

Conventions in the field of traffic, as a rule, predict that the transporter cannot refer to his/her limited liability if it is proven that the damages has arisen by loss, damaging or delay in delivering the goods, by consequence of his action or neglect to act, or it arising due to action or omissions of his workers and agents that have, even though in the scope of their authorizations, proceeded with the intention of incurring damage or in the knowledge that the damage can ensue.

The liable person can allege certain circumstances that could lead to excluding his liability, but in strictly limited cases. According to the conventions related to nuclear damage, the liability of nuclear plant operator is excluded for those nuclear damages that are direct consequence of military conflict, civil war, mutiny or accident cause by natural devastation of extraordinary character. In aero nautical law, force major can be the reason of excluding from liability only if the air transporter could prove that it is an exclusive cause of the damage. Guatemala Protocol knows only two cases when the air transporter in passenger traffic can release from the damage liability: first, when the damage has occurred as a consequence of health condition of the passengers, and second, when the damage has occurred by exclusive fault of the passenger. This protocol also predicts the principle of limited liability with determination of upper limit to which the transporter is liable. The compensation for damage committed by space aircrafts, according to the Convention from 1972, is excluded if the damage has arisen due to actions or omission of the injured state, physical or legal entities it represents. The international convention on liability and indemnification with regards to transport of dangerous and harmful substances by sea (1969) excludes the liability for damage of the owner of the ship, if the damage has arisen out of war devastation, enmity, civil war or exceptional natural events that could not be predicted, intentional acts of the injured, as well as neglect of state bodies competent for the shipping safety. These reasons, with the exception of the last mentioned, are also predicted by the convention on civil law liability for damage arisen by transport of dangerous goods by road, rail or inland waterways (1989).

#### **4. INDEMNITY FUNDS AND INSURANCE**

In developed countries, consumer societies, the procedures for compensation for damage and indemnity, as well as the reasons due to which the indemnity is claimed, are often on the verge of absurd. protection for arising and consequences of damage and compensation for it, have become one of the most profitable businesses the insurance companies, companies for representing in the procedure of realization and collection of damage, etc. are dealing with, by accomplishing enormous profit. Many international conventions predict foundation of special indemnifying funds which are formed by potential damage causers with their resources, especially if it is

about damages arising out of nuclear energy usage, passengers transport and transport of goods and environment pollution that can reach great proportions. Accumulation of such fixed resources suits the interests of both damage causers and injured ones, because with relation to the first the financial impact is alleviated that he/she would suffer by unexpected harmful event and paying out a high amount of money, whereas the second gets the indemnity even when the damage causer is insolvent or even unknown. Thus, under international convention adopted in Brussels on 18<sup>th</sup> December 1971, The International fund for indemnification was founded due to oil pollution with the goal that economic consequences of such damage should not be born by ship-owners only, but also those persons having financial benefits from transport of oil (primarily, the oil owners). All users of transport which have received the oil above the tonnage set by Article 10 of the Convention are obligated to perform annual payments into the mentioned fund proportionally to the quantity of oil they have received during the calendar year. This international fund has the status of legal entity and can independently appear in all lawsuits before courts of the contracting states. The constitution of the indemnity fund is also predicted by the convention on limiting liability for marine claims from 1976. A special "HNS Fund" is also formed according to the International convention on liability and indemnity related to the transport of dangerous and harmful substances by sea (1996) with the purpose of receiving and deliberating the actions against the Fund, as well as to prepare the budget of the Fund for each calendar year.

Provisions on compulsory insurance can be found, as a rule, in all international conventions herewith spoken about. The Vienna Convention (1963): the user of the nuclear plant is obligated to conclude the insurance or provide another financial warranty for covering its responsibilities for nuclear damage in the amount, type and under conditions established by the state wherein the plant is situated. According to the international Convention on civil liability for damage caused by pollution by oil (1969), the owner of the ship which is registered in one member state and which transports more than 2000 tons of coal as a bulk, is under the obligation to enter into an insurance agreement or to have some other financial warranty, in the amount of limits of its liability. The compulsory insurance of transporter is also predicted by the convention on civil law liability for damage arisen by transport of dangerous goods by road, rail or inland waterways (1989). By the Convention on civil liability for damages arisen due to activities dangerous to the environment (1996) predicts the compulsory insurance of the owner of the ship.

In the mid seventies of 20<sup>th</sup> century as a new accounting unit at indemnification in international conventions, instead of the until then dominating golden clause of the so called Poankare francima, more and more introduced is "The Special Drawing Right" – SDR [8], as a special unit with the purpose of depreciating as little as possible the amount of indemnity. The Special Drawing Right is calculated into national currency on the base of value of the currency on date of founding of the indemnity fund, and if such fund is not founded, on the day the payment is effected or the equivalent guarantee is provided. The national currency value is thereby calculated in accordance with the method of valuation applied by the International Monetary Fund. Apart from the special drawing right is a somewhat newer institute of the international financial right which has started existing in international conventions, soon after its introduction, objections appeared, that in spite of its advantages, due to inflation in the world, global growth of price indices, decrease of purchasing power, there comes to accelerated depreciation of limited sums and indemnity sums, due to which in the framework of UNCITRAL the search for even more adequate and universal calculating unit has started, which has not yet given any results. The Special Drawing Right, however, is already incorporated in all newer international agreements containing provisions on liability for damage and accepted by all 182 member states of the IMF.

#### **4. NEW TENDENCIES IN THE PROCEDURE OF INDEMNITY CLAIMS REALIZATION**

As a rule, the injured party realizes its indemnification rights in accordance with provisions of the international convention granting him the right to indemnity and predicting the corresponding judicial or other procedure without aggravating formalities. All the newer conventions we have discussed in this paper contain the provisions of courts competence per actions for compensation for damage, deadlines for submitting and obsolesce of the law suit, international law application, recognition and execution of legally binding and final court decision on the territory of the contracting parties. The objections at compiling many international multilateral agreements that the questions of these actions would be arranged better by bilateral agreements, have nor proven persuasive so far. Namely, by including procedural provisions into multilateral conventions, which is the tendency in all latest conventions, in the execution of them uniformity, necessary efficiency as well as better protection and legal safety of the injured parties is achieved.

In that regard, it is interesting to mention the Civil law convention on corruption of the Council of Europe (2003) which reflects on some parts of the procedures before court, and thus orders that the signing states predict and efficient procedure for acquiring evidence in civil action. In exposition of this provision it is noted that it does not mean the obligation of establishment of a special procedure for collecting evidence in cases the object of which is corruption, nor transposition of the burden of proving on the accused, but in the sense of efficiency of



the system for collecting evidence in the law suits in general. Additionally, the Convention reflects on the need of existence of temporary measures issued by the court, which are necessary for the purpose of preserving the rights and interests of the parties during court procedures, with the purpose of ensuring that the accused during court proceedings does not transfer its property that could serve for the realization of indemnity, to third parties. Thereby, the Civil law convention refers to respecting international documents that specially deal with issues of international cooperation in fight against corruption. Although it is not asked from the signing states accede to those special agreements on international cooperation too, the efficiency, as the key for estimation of the fulfillment of obligations will be appreciated precisely with regards on the mechanisms predicted by those agreements.

## 5. CONCLUSION

The liability for damage, especially when it is about the so called mass damages of high amounts and great proportions such as damages in peaceful usage of atomic energy, damages in civil aeronautics and marine damages, as well as great ecological damages, can hardly be solved within national boundaries of the states due to the unpredictability of the risk, the consequences dispersion and inability to control them. The interest of the injured, the equity demands and international solidarity have conditioned in the area the enactment of numerous international conventions that are wholly or partly dedicated to conditions and procedure for compensation for damages, identification of the injured and the causer and regulating their rights and obligations. The liability for damage, as a rule, rests on principles of objective liability, and the indemnity procedure is simplified. At latest times, the international regulation is attempting to reconcile two seemingly opposite intentions: on one hand, to fortify and make more favourable the injured person position by enabling him/her the payment of adequate, complete and timely indemnity and on the other hand, to make the compensation burden possible and financially bearable for the damage causer. It is achieved by forming of the special indemnity funds that can guarantee the indemnity even when the causer is insolvent, when the damage exceeds the limit up to his/ her liability for damage and even when he/she is unknown. For the purpose of preserving the substance of indemnification from national and global inflatory tendencies and currency differences, the international regulation has established a new calculating unit – “Special Drawing Right” for indemnities, which is entered into all latest agreements and it is on the way of becoming a universal calculating unit at civil law liability for damage.

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## MODERN STRATEGIES OF TECHNOLOGICAL MANAGEMENT

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***Summary:** Of development without the appropriate long-term and medium-term strategy of socio-economic sustainable development strategy and technological progress is unachievable without respektovanja innovative process. In today's turbulent world and globalizacije characterized by rapid and sudden emerging technological changes because nepredvidivog growth of innovation, introducing new technologies and new communication, a critical factor in transferring from the group of underdeveloped countries in the group of developed countries, modern technologies and their transfer to countries that do not have capacity potential the creation of innovative technologies. Technological development can be certain if the environment assumed a certain technology, has a deep knowledge of organized, active experience, a critical level of wisdom and vision of the complex itself.*

**Key words:** strategy, technology, development.

### 1. INTRODUCTION

Man by his nature tries to find out as much as he can about his future and circumstances under which the future will happen, not just because of curiosity, but to make certain decisions about survival, and development and make life easier in general, or to make life efficient and more effective. Organization of continuous functional market, in sense of business and spending society, is a biggest problem of modern market economy.

If the market stoped functioning, on economic logic, there would be monopoly situations and inexistence of integral market. As integral market is an assumption of market business in the whole, the modern market economy is not just simple, but complex organization where there is competition, numerous winnings and defeats.

Predictions of technological development are for market oriented company, a group of information necessary for making decisions about plans of production, research and development of product, variations, innovations of existing and new products, spread of productional capacities, plans of purchase, plans of employees, financial plans.

Complex total world ambience, make by constant technological advance, makes the obligation to every country itself 'to form it own developing strategy' [6, pp. 3].

'Survival on the market means that by positive business, a certain excess of value will be made, or profit that is spread with a plan, among other things for improvement of very important elements (new technology, education, etc.) that always helps us survive on the market' [7, pp. 143-147].

Strategy is a plan formulated to fulfill a mission. Every functional sector has a strategy to fulfill its mission, and to fulfill the basic mission of the company in whole. Strategic decisions in scope of management of production are the third branch of strategic triangle whose two other components are marketing and finances.

Strategic decision in the scope of production are always on long-term basis (over 1 year), while for their implementation it usually takes about one year, unlike tactic decisions, that can be drastically changed in less than one year. Both types of decisions support management of production as well as a mission of the company [1, pp. 143-147].

## 2. MODERN TECHNOLOGICAL STRATEGIES

It is not possible any more to fulfill cultural development without proper long-term and middle-term strategy of social and economic development and strategy of technological improvement.

'In a world today of crisis turbulences and globalization characteristic by making fast and sudden technological changes because of growing number of innovations, new technologies and new communication, critical factor of transfer of country from a group of undeveloped to group of developed countries is a transfer of technology, which can be seen in example of Southeast Asia' [7, pp. 167].

Transfer of technology and effective management of technology are becoming strategic weapon of many countries and multinational companies in competition for global markets and mass consumers. The development of effective strategy in time of globalization implies identification of chances in economic system and certain organizational, efficient mission with an aim to contribute economic development of the society.

Efficient mission is an imperative of every organization and when it is once defined, every functional sector in organization defines its mission of stated mission in whole.

Functional sectors are sectors which are necessary for the activities of the company, starting with marketing and finances, down to productional activities.

Basic mission of the company is fulfilled through properly set – formulated strategy of all functional sectors in organization.

In scope of management of production, strategic decisions, marketing and finances are three main components of strategic triangle and mostly refer to period longer than one year and for their implementation it takes about a year, unlike tactic decisions which could be drastically changed in times less than one year.

Both types of decisions support management of production as well as mission of the company.

When it comes to modern tendencies in strategy of production, its development includes: question of productional capacities, number of purchases, choice of option in production, quality of products, expenses of production, application of developed technologies, reliable plan of delivery, decrease in stocks, spare parts and services, increase of competitive advantage.

Productional management has a big part in strategic decisions which are focused to increase of competitive advantage of the company.

Factors, which have a great importance for increase of competitive advantage of the company are the following [7, pp. 167-168]: width of production line, strength of research development, reliability of product, time of delivery, value of the product, services after sale, marketing professionalism, interest for the needs of the consumer, projecting product, fitting product in portfolio of the company, computerized and automatized production, application of new technologies in productional process, image and good name of the company.

## 3. MODERN PRODUCTIONAL STRATEGY

Modern strategy of production on global level includes following components:

1. *Productional strategy* that defines complete productional process, including most of all time of development and quality of product, with a tendency to decrease the expenses of development by application of new technologies of research and development - *Lean tehnologija*.

2. *Business strategy* that is based on decisions of a manager, according to existing level of technology, assortment and quality of product, full usage of human resources and maintenance of technological lines of production. Application of new 'outsourcing' [4, pp. 279] strategy give a possibility to use cheap working labor with existing equipment in other countries on places very distant from the headquarter of the firm.

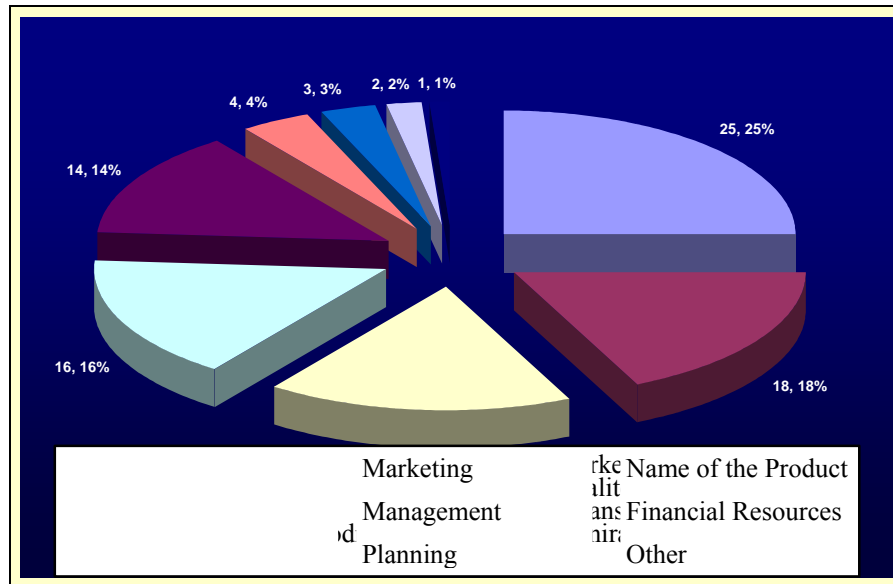
3. *Successful locating* of technological equipment for productional and service activities determine final outcome of the operation. Mistakes in locating of equipment for production and spread of work in branches of multinational companies influence efficiency and effectiveness of production. Factors of efficient locating of production are: position of sources of raw materials and energents, position of roads and other transport ways, harbours and airports), as well as mapping of territories by method of global geographic informational systems.

4. *Strategy of projecting* of productional process, relates to factors of production (employees, purchase, planning of stocks, equipment), that influences projecting productional process. Preparation of quality studies has big influence for successful interpretation of strategy of projecting, having in mind financial and economical side and well scientific basis of applied researches.

5. *Strategy of supplies* is based on determination of necessary quantity, quality and price of productional material. Certificates of purchase of material must have data set by standard, including: name, type, class, level of quality, specifications, drawings, demands for processes, explanations for controlling, as well as a number of international system of standards of quality which are applied for the product.

6. *Disposition* of working, technologic and administrative positions, productional equipment and furniture, which is necessary for efficient production, can be set during projecting, but it has to be tested again and optimize before we let the equipment work or in case of re-engineering of productional process.

7. *Optimal stock supplies stratetgy* in the production process, Just-in-time strategy of production without stock supplies with minimal amount of raw material and with no storage of final products. The sudden advance of electronic industry and computer technologies has radically affected changes of work ambiance in all fields of industry, both in highly developed countries and in other countries. Introduction of computer integrated systems and robotics increases the production level and product quality



**Figure 1:** Categories of strategic options (in percentage) [7, pp. 72]

Technology choice and the way of acquiring it is of special importance for a company. Defining ways of exploiting technology is an important strategic decision for a company.

Exploiting the technology of choice can be done in two ways [7]:

1. *Through internal exploitation* which includes using the technology for projecting, development, production and selling of a product. In the internal technology exploitation, companies work and take part in businesses where such technology is used. Some of the technologies might be a key to success for a certain kind of business.
2. *Through external exploitation* which involves transfer of one's own technologies for other firms to use them in their business. The advantages of using external technology exploitation is in the following cases: when company's technology can be protected by means of patents and authorization; when the company intends to get into the market where it cannot go directly due to economy barriers, local meaning etc; when it is short of resources for a direct breakthrough into a market; when it wishes to exchange technologies with another firm; when a company wishes to control potential competition by licencing contracts, directing them as far as possible from research which might help them create their own technology, or even by favouring certain competition.

It should be pointed out that internal and external technology exploitation are not mutually exclusive. Some companies work solely on research without applying their own technology. They are actually research centres only.

It is often a case that companies are unwilling to sell their technologies or they exploit their own technologies and give licenses to others; some develop their own technology in certain markets and sell them to firms to use them in other markets. The choice depends on the strategic policy of a company.

#### 4. OFFENSIVE INNOVATIVE STRATEGY OF TECHNOLOGICAL DEVELOPMENT

The main feature of offensive innovative strategy is that it is created so as to achieve a technological and market leadership in introducing new products and processes, compared to the competition. Given that science and technology are generally available to every company, innovative strategy requires relying on company's own, independent research development, or on applying new technology advances much sooner than the competition.

In other words, offensive innovative strategy can be based on one of the available combinations of these advantages.

Innovative strategy involves engagement of key individuals, necessary consultant arrangements, contract research, good information systems, personal connections or their optimal combination. Even with all this, all relevant scientific and technological information for an innovation cannot be acquired from one source only. Consequently, an offensive strategy is inconceivable without a good development and research basis within the company.

A development and research unit plays a significant role in offensive strategy because it has to generate scientific and technology information not easily acquired and it also has to oversee the suggested innovation up to the moment when regular production begins.

Special companies that specialize in exploiting an innovation which is fully developed somewhere else are quite commonly set up. This sort of company mainly employs fewer workers and they fall into the category of offensive innovators. They are set up especially when the existing companies refuse or are not able to accept the offensive strategy.

“Offensive strategy of technological development requires that a company undertakes intensive development research and to persist if no innovation is introduced into regular production within a few years. Once it achieves its technological innovation, the company protects it in order to make profit which will cover for expenses of long term research development.”<sup>8</sup>

Applying an offensive innovative strategy involves a certain degree of risk a company must count on; there are many cases when a company doesn't make any profit from its own research for more than ten years, and sometimes never. Research shows that those companies didn't have fundamental research, which is a basic scientific and technological function.

The present interaction between science and technology is a complex process of inevitable mutual interweaving as well as of conflicts between new and old knowledge. Scientific and technological functions and efforts included in the company's offensive innovative strategy require permanent and significant material investment, significant development research costs. Regardless of the high degree of cost of development and research in the overall innovation costs, we must not underestimate the great importance of production planning, market research, advertising and marketing. The lead in the market cannot be attained without good researchers, technologists and technical staff, both in innovation activities and in the field of product creation as well as in the area of marketing support.

The costs of IR have long been considered as insignificant in the overall cost of innovation and they go up to 10%. However, it has never been confirmed by empirical studies but is the result of false interpretation of the American Ministry of Commerce, which is often quoted. The empirical studies of Mansfield for USA and Canada and of IFO for OECD prove that the amount of IR costs in the overall innovation costs go as high as 50%.<sup>9</sup>

## **5. DEFENSIVE INNOVATIVE STRATEGY OF TECHNOLOGICAL DEVELOPMENT**

Few companies are able to completely follow an offensive strategy in a longer period of time. In most cases, after accomplishing a successful and original innovation, companies decide on consolidating their position by using various strategies: from defensive, imitative, dependable (satellite) and traditional to opportunist strategy.

A defensive strategy assumes that a company has its own development research, so this strategy may be both research intensive as well as offensive. The difference between them often lies in the nature and time span of innovations. The companies that opt for defensive innovative strategy obviously have no ambition to be market leaders at any cost, but they also do not want to be at the tail of technological changes.

The defensive innovative strategy mostly lacks in actual knowledge resulting from fundamental research and it lacks in certain research and development facilities. So far, research has proved that the majority of development research is either defensive or imitative and that companies mostly opt for improvements and modifications of the existing products, processes and technical services. Such a strategy is typical for most oligopole markets and is closely associated with the diversification of production.

To avoid falling behind, defensive innovators should be able to quickly adapt, their products not only must be at least as good as products of the early innovators, but to have some technical advantages, which differentiate in the market with the same or a lower selling price. This can be achieved only with appropriate development research.

The option of buying patents also belongs to the defensive strategy, and it can be very useful. Protected patents are the main source of licensing revenue for offensive innovators, who at the same time protect the price level, necessary to compensate the costs invested in research and product development or technology. After purchasing a license, defensive innovators must distinguish significant material resources for adequate education and training of staff and consumers. In addition, technical assistance and guidance must be provided, and these

features are also important for both the defensive and the offensive innovators. Defensive innovators dedicate special attention to long-term production planning; the commitment is also typical for offensive innovators, which means that defensive innovators, as well as offensive, employ a large number of researchers, engineers, technicians and other highly trained personnel with emphasis on development work while the offensive innovators put emphasis on research.<sup>10</sup>

National environment, especially scientific and technological policies and strategies of technological development at the country level, have a decisive influence in the selection of innovative strategies. Elements of scientific and technological development must be agreed with the potential of the country, available resources, historical experience and future development plans.

## **6. IMITATIVE STRATEGIES OF TECHNOLOGICAL DEVELOPMENT**

This strategy is suited primarily to those companies that have more modest ambitions, and are unable to keep up with the offensive innovators. These companies decide to follow the leader on the market that launches new technology in their industry, and is situated at a large geographical distance. Depending on the distance, imitator companies choose to purchase licenses or know-how, but the central part of their strategy is based on the greater spread of technology, developing the necessary research and development activities as well as an indispensable workers training.

Entering the market requires that companies which follow imitative strategy of technological development, have a certain, usually cost related advantages, lower investment costs, lower prices of energy or raw materials in relation to innovative intense competition. Imitators have savings in expenses for development research. Production engineering and structural design are two functions in which imitators should be strong, even when they produce identical copies of the licenses. It is of great importance for the imitators who do not have significant market protection and must rely on lower unit costs to achieve success in the market. All imitators must be efficient in the production process which is subordinate to their predominantly adaptive development work. In addition, the service of scientific and technical information in imitative firms should be sufficiently developed to enable selection of appropriate products and technologies that exist in the market. Also, the success of the imitator companies depends to a large extent on the benefits of instruments of scientific and technological policy of a country.

## **7. SATELLITE STRATEGY OF TECHNOLOGICAL DEVELOPMENT**

Dependent strategy basically means accepting the essential satellite or subordinate role in relation to the strong and leading technology companies. Companies that follow this strategy often do not try to imitate the technological changes. They do this only in case of any request of their customers. Mostly all large companies have a number of satellites around them, which supply them with various products or services, especially in electronic, automotive industry and machine building.

Satellite companies are not engaged in research and development and are usually sub-contractors of subcontractors. Small companies in capital-intensive industries are in this position. Subsidiaries are in many cases departments or subsidiaries of large firms, to which in some cases sub-contractors are useful for mitigating fluctuations in the market.

Numerous studies indicate the existence of the satellite companies, which generate significant profits, thanks to low-cost, specialized knowledge and experience, effective management, etc..

## **8. TRADITIONAL STRATEGY OF TECHNOLOGICAL DEVELOPMENT**

The nature and character of the products that are manifested in the slow changes, cause a certain kind of traditional strategies, unlike subsidiaries which can change the product very quickly. In traditional companies product change is usually initiated by market demand. This is to some extent an advantage of the traditional companies because their product does not depend on the behavior of competitors, but depends exclusively on the consumer.

Regarding research and development capacity, traditional and dependable companies do not have them, but traditional companies can improve their product through the new creative solutions, but these creations are mainly aesthetic in nature. With new technology, the traditional product loses its traditional uniqueness, and any aesthetic redesigning of products can make some beneficial effects on the market. That is where traditional products have an advantage over other industrial products.

The downside of traditional products is insufficient acceptance of products, due to lack of traditionalism. Companies that have a distinctive, quality product, follow the traditional strategy of technological development

and can successfully operate under sharp competitive conditions, which are getting close to the model of "perfect" competition, or under local monopolies.

## **9. THE OPPORTUNE STRATEGY OF TECHNOLOGICAL DEVELOPMENT**

The "opportunistic" strategy or the strategy of "refuge", is reflected in the fact that companies that implement it, regardless of changes in the market, manage to find the products and services that consumers seek, and which no one else offers in the quantities required by the market. Such a market refuge needs to be constantly defended and preserved, regardless of the present, temporary difficulties, and the products and services are not dependent on research and development, even when referring to technology intensive industries.

In recent years, new perspectives on technological strategies that go a step beyond the traditional concept have been developed. Theorists in a growing number believe that technology is the primary base of firm's strategy. This concept is applied in practice by a large number of companies in the field of automotive, computer, biotech, energy industry and industries for the production of new materials. Companies that have applied the strategy based on technology are far away from the concept of traditional business. When allocating resources it is important to use a three-dimensional portfolio with an equal role of technologies. Strategies of technology clusters are promising for the consistent application of technological capabilities in several different businesses.

At the end of the discussion about the different types of innovation strategies that companies can follow in accordance with the potential at their disposal, we can say that the important characteristic of industrial development during the twentieth century was the growth of research-intensive industry, the result of long-term adaptive response to the pressures of domestic enterprises and foreign competitors in order to preserve or improve market position. Different strategies of technological development of enterprises have been differentiated by the market and its mechanisms.

The current era of technological revolution has a far-reaching impact on the whole human society, technological innovative changes are taking place at high speed and there probably is no area of human activity that is not more or less under the influence of these changes. The existing technologies are greatly improved with simultaneous emergence of new innovative technologies with multiple large potential, especially in the technical sciences, chemistry and electronics.

The new changes affect the economic sphere of social life by affecting a company's strategic position in the environment. New technologies create new markets, new products and thus new ways of creating competitive advantage. This is particularly visible in the fields of high technology, but the less technologically intensive sectors are not spared of the impact of these changes either.

From the point of usefulness when it comes to big technological changes, it is very difficult to foresee the benefits that potential buyers will have, and even the company-innovator itself. For these reasons, marketing research after the appearance of the product on the market based on new technologies is very important and it should be adapted to the results of marketing research. In other words, no matter how much a new product is perfected by technology, it is the market which verifies a new product and receives or rejects, or requires additional technological solutions.

Researches indicate that companies with quality products and a large market share charge a much higher rate of profit than enterprises with low quality and low market share. Positioning the company in the market is actually a parameter measuring success of innovation.

Implementation of technological change requires an adequate strategic approach - observing how technological changes will affect the company's strategic position in the market. Strategic approach is of great importance because it requires an adequate response to technological change and urges a company to be better than the competition. This implies it is necessary for a company to have an adequate strategically oriented decision making in order to create advantages in relation to competition.

## **10. CONCLUSION**

Companies operate and develop within the technological possibilities arising from the development of science, technology and markets. Such development is exogenous and independent of individual companies, because it generally continues when some companies cease to exist.

In order to survive and continue to evolve, a company must realize the necessity of innovation that is historically conditioned.

Development and survival of companies depend on their ability to adapt to the external environment, as well as on the ability to affect certain changes in the environment in the desired direction. Technological changes are an important aspect in most industries, so that traditional economic theory based on the understanding of the market as a single enterprise environment, must necessarily be changed.

Despite existing limitations, companies have a range of alternative strategies at their disposal. For example, they can use available resources and scientific and technological potentials in various combinations of short-term or long-term character. Companies have the ability to associate, to buy a license, to conduct market and technology forecasting, or attempt innovation of its products and processes. Also, they can modify existing achievements in science and technology in some elements, depending on their innovative potential, being aware of the ever present risk that it is very difficult to predict the outcome of their own research efforts as well as the efforts of their competitors.

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## LEGAL REGULATION INFLUENCE ON LARGE BUSINESS SYSTEMS MANAGEMENT

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**Summary:** *Legislative (legal) component is specific and significant for development and organization's operations from several reasons because it is determining, i.e. prescribing the rules and rights for all members of society, which have to be followed and respected" [7, pg. 165]. The influence of this factor is especially reflected on large business systems that are multiply intertwined and subordinated both by the international and national laws, regulations, rules and norms. Large business system, as a highly complex technical-technological system is procedurally defined by standardizing the actions, procedures and total operations, by regulations, instructions and other forms of written business communication between various levels within the structure of the whole organization, i.e. the organization and the ambient. This paper's thematic contents is directed to determination of the essence of the regulation term as the source of rights, containing in itself the managerial clauses stipulated by the state, the clauses related to operations of the economical society itself and for practical determination of values of the independent, dependent, quantitative, qualitative and other factors that can have an effect on large business system's operations. The purpose of this paper is to point out that the regulations have a significant role and influence on the management process, i.e. that they represent the instrument for managing and promotion of business, but it is also the means of mass business communication, having its role in transferring information, orders and necessary knowledge in communication of different levels of decision-making in large business systems.*

**Key words:** *regulations, internal acts, management, business communication, large business system.*

### 1. INTRODUCTION

Economic entities within the economic activities they perform in their operations have to conform to the economic operation rules, because those are general social and ethical rules, but also the basic rules of professional performance of economic operations. Legal sources of the economic operations rules are constitutional and legal regulations by which certain rules of conduct and single principles of economic operations of fundamental character are determined as well as special rules by which singular general relations are established.

A special type of written business communications is formed by general and other acts, adopted within the large business system as the internal acts. The internal acts (collective agreements, arrangements, statutes, standing orders, rule books, decisions and other general enactments) are adopted based on the law and sub legal acts of the assigned authorizations for their adoption and, as such, represent significant sources of rights, because they are sanctioned by the state due to their significance. Based on them, the individual enactments are adopted-individual decisions, resolutions, orders, instructions, work orders and other individual acts that together with the general acts, as a special written business mass communication, have the task to follow and assist to the management instruments, provide directive instructions on work, provide information for settling individual work task, information on output characteristics of various business results, and also to create positive relation with publicity and present new products and services and motivate the employees. The internal acts directly or indirectly point to the required activities, i.e. precisely define what, how, when, where and why should be done in the work process and how to objectively and efficiently manage such work process.

The basic general legal act is the statute and as a part of the internal legislation of a company it is a legal ground for further establishment of individual relations in the company by other general legal acts (the rule book, standard operating procedures, etc.) that have to be in complete accordance with it. Therefore, the statute is the primary general legal act of the company, its contents is determined by law and by its basic questions related to



the legal position of the company are established, the organization and bodies are determined, the company management is established, basic rules of work and operations of the company are provided for, the conditions, manners of execution of the status changes of the company are defined as well as the responsibility of the company's bodies, etc. By this act form the aspect of the function of company management, the issue of actions and adopting procedures, adopting, publishing and issuing of all the other general and other acts that, in the set organizational structure, should enable the business managing body to lead the company towards the desired goal.

The business operations politics represents the science and skill of management by the help of selected methods of work, operational wisdom and getting accustomed. By establishing the relations between the goals, the strategy and opting that wish to be achieved are defined, but also the policy of various functional areas related to the man's activities are defined [12, pg. 180}. The business policy is partially determined by the sources of rights, i.e. by the laws precisely in the part where the state wants to regulate certain areas of living and work through the set general parameters of business operations or the frameworks wherein certain goals have to be located in. On the other hand, the organization itself, depending on the role in the economy and society, adopts its business policy related to the plans on realizing the business goals and tasks. The business policy is always adopted at the level of the organization's top management and belongs to the strategically important decisions of great relevance to the total business operations.

The process of coordination of the activities of other people by one or several persons for the purpose of accomplishing the demanded results, which cannot be provided by engaging only one executive, is enabled by special procedures and instructions, therewith making the management easier, by the central setting of special norms for certain actions and procedures. In order to ensure the minimal level of quality, but also to provide the possibility to raise the quality level during work by innovative actions of an individual, it is necessary to allow the freedom of positive behaviour by the regulations.

## 2. REGULATIONS IN THE FUNCTION OF MANAGEMENT

Management is the primary function of each company's business operations, because by this process the necessary work and business efficacy is provided and the long-term stability of the organization in the overall work process is established. Additionally, the desired position on the market as well as the successful growth and development of the organization cannot be realized without the efficient function of the management being tightly related with. The management is necessary in all great systems and structurally formal organizations where the physical and personnel resources are combined in business operations for achievement of the set in advance, the most favourable, i.e. desired goals.

The regulations in the function of management as the written business documentation of the organizational system and management, for the purpose of directing and coordinating, have the task to emphasize and explain the strategy and goals, define the plans, the organizational structure, operations and work tasks through the provisions for the given actions and procedures, i.e. to provide guidelines and regulations of the company's functioning in itself. By the general and other acts, as business documents, in the formal structure of the organization the most important cognition is transferred on all the necessary business flows, the overview of all the procedures, rights and obligations and responsibilities, thereby directly influencing the sense of labour responsibility at the direct performers, increasing the work motivation and opening the possibility of constant and efficient control as well. Depending on the position in the work places' hierarchy, each employee can find in an appropriate internal regulation the required form of his conduct as the prescribed method of performing his/her everyday activities and obligations.

**Table 1: Management and document level**

Level of management	Document level	Business operations level
Company management	The statute and standing orders	Policy, goals, organization of responsibilities and authorizations the organizational know-how guidelines
Management according to sectors, departments, etc.	The rule books and instructions, defining the actions and procedures	The operative system of quality description, the organizational know-how described in detail
According to the work places of individual activities.	Work control and Instructions, reports, evidence	Detailed description of individual activities' realization, the technical know-how on the company level

In large business systems, as the specific technical-technological system, one of the administrative functions is also adopting, according to the prescribed procedure, of general and other acts, wherein, according to the definition, the statute, the rule books, instructions, decisions, standards, etc. are implied. In creating and adopting the general acts participate all the management structures with different authorizations in the sense of expert support on making the text proposition, and even the managers from the very top of the organizational structure that these general acts, by the relevance of their managerial function, put into effect by the official adoption.

The organizational structure implies the responsibilities, authorizations and relations established in a manner under which the organization is functioning. Besides defining the organizational model, the internal regulations within each element of the organizational structure, define the following: the goals, work tasks, the coordination forms, the necessary number, the structure, the work capabilities, rights, obligations, desired conduct and responsibility of the workers and managers. By this the problem of identification, organization and managing the network of processes and their mutual relations is solved, by simultaneously providing a single total overview of all guidelines and regulatory rules of a company's functioning, i.e. the procedures and obligations, behaviour and manner of performing everyday work activities.

Therefore, the regulations are important in the function of organizing, managing the processes and personnel as well, because they also determine the required capabilities and qualities of each employee in accordance with the previously set goals.

The rule books, instructions, business patterns, business documents, as well as all general and other acts have a permanently established form and are applied for a certain type of business communication. The companies can and should make for each type of permanent jobs these kinds of documents with the basic form, wherein provided are only the elements relevant in the respective case for certain area of regulation. The administrative acts and documents have certain function within the written business communication. The regulations direct and regulate the behaviours and procedures. Those are just the frames because from the way of behaviour a certain manner of communication arises. Also influencing on the communication are the non-written rules that can even be more rigid than the written ones, because they are more difficult to alter. The written regulations are thus of the special significance, because precisely they form and channel the communication that can also be rigid due to some "tradition" and the hindering factor to the management. In that sense, an extremely important regulation could be the act regulating the systematization of the jobs and tasks.

For a large business system as the complex technical-technological system, the most important issue is formal communication that is established and regulated by general and other acts, of the required quantitative and qualitative value to be fulfilled, especially in the function of management as a type of administrative system's documents of the set organization, structure and management. Apart from the integrity, readability, simplicity, effectiveness and universality those are:

- **Hierarchy** – the regulations should be, according to their significance in the sense of mandatory application, the recommendations or just information, also classified according to the management levels, used in the management system.
- **Structure** – should satisfy all the requirements in the function of the selected model of the organization and the company's structure, but also to adapt to the set, applied in practice, system of business operations.
- **Actuality**- The permanent actuality of the regulations is the principle condition of perseverance of the organization's totality and quality maintenance of the mutual relations between certain areas of activities in the company, whereby the synchronized action in the business operations efficiency is achieved.
- **Unique approach**- the unique approach at the company's level for the purpose of identical manner of regulating the operations processes in all segments of the system, whereby the technical-technological unity, the rationalization of business operations is provided and automatically developing and maintaining the good image of the company.
- **Intelligibility** - the regulations should be formulated concisely and comprehensibly in order to enable a unique interpretation at all levels of the organization. This characteristic is most important from the aspect of elimination of dilemmas and the possibility of wrong interpretation in itself, i.e. from the aspect of realizing the system's performance on the level of quality "without possibility of mistake".

The regulation validity in the sense of its efficacy requires the information on the manner of performing tasks or the actions and procedures to be applied, significantly influence on the frequency of its application both in the managerial function and in the work of the direct performers. Once gained distrust in the utility of the regulation application, as the information proponent, is leading to its exclusion even in the cases when it should not be allowed from the aspect of the system's functioning.

### 3. REGULATIONS IN THE FUNCTION OF ORGANIZING

"The primary task of organizing as the management function is structuring and activating the organizational potentials for the purpose of realizing the defined goals. This function includes division of labour, authority delegation, operative tasks organizing and dynamic guidance over the organizational activities" [8, pg. 109]. The organizing is the management function following immediately after defining the goals and other elements of planned activities as well. It comes to providing and establishing the company's goals and the application as

well, i.e. carrying out of the selected plans. The organizing also includes grouping the performances into appropriate work tasks, allocation of the tasks to the individual or group performers, delegation of the authority to the executives along with defining the proponents of their rights, obligations and responsibilities at work, etc.

The management should select such an organizational structure the best suited to the certain company. It means that major principles of organizational design should be respected, Because the structure should follow the strategy and different parts of the structure itself should be divided into areas of business operations along with the request that the number of levels in the organization's structure should be as smaller as possible, the area of the control should be adjusted to the nature of the job, and finally clearly defined centralization i.e. decentralization. Thus, out of the complexity of every organization, main processes should be pointed out, engaged and find general and special priorities in the system of providing the concrete service product. The basic problem with the complex and large systems is identifying the organization for the purpose of managing the network of the processes as well as determining the structure of the holder of the responsibility with their authorizations, i.e. rights and obligations.

The organizational design of the organization structure represents an important presupposition of the organizational efficacy and it can be executed in three basic approaches: The functional, sector-departmental and combined where within each element of the organization structure the forms of coordination are defined, i.e. the needed number of workers and executives and the structure of the required working skills. In the selected structure of the organization, the power of the participants in each segment to influence on the behaviour of others has to be in accordance with the business operations demands and that is why it has to be determined which function is performed by which participant and in what way should all the segments in the set organizational structure mutually operate. Various levels of cooperation, conflicts and competition can be observed between the organizational segments and within the segments as well. The conflict in the horizontal line represents the conflict of the participants positioned at the same level, whereas the vertical line conflict can be more easily settled by clear allocation of the rights and responsibilities.

The special written business mass communication, regulations, instructions, etc., completely represent the part of the means used at the time of the organizational-managerial function activity and as such they can be defined as the transferal of messages and information within the formal structure of the organization. The messages are transferred by the formal communication channels that can be vertical and horizontal. These channels include:

1. directive instructions on the work, what , how and when something is done,
2. information for clarifying of the individual work tasks,
3. information on the output characteristics of various results,
4. procedures and corrective measures to be undertaken for correcting the observed bad results.

The crucial role in forming the segments of the organization is the range of management, conditioning the formation of different organizational units and levels of organization in them, taking into account that one manager cannot manage the unlimited number of the subordinates by himself. At forming the mentioned organization, the tendency is to find the most favourable and the simplest solution, i.e. the less deep and less indented structure for the purpose of avoiding the more complicated communication in the organization and engagement of the large number of managers. The messages, information and orders should not be passing a long way following the business hierarchical lines of the communication.

The organizational culture is mostly expressed through the adopted system of values, the decision-making manner applied and the predominant manner of the organizational behaviour. The organizational dynamics can encourage or block the realization of the strategies and goals, and the business culture as one of the factors of the successful business, can be strengthened and developed by means of the regulations as well.

#### **4. REGULATIONS IN THE FUNCTION OF PLANNING**

The regulations in the function of planning appear in dual role. The development programs and plans are presented by the general and other plan acts used by the managers of higher and middle level in their work, and the standards, technological instructions, methodologies, technical conditions and other acts present the basis for planning of work and operations of the middle and lower level of managers.

Taking into account the modern management principles, it should be approached to determining the regulative or regulations that will bring close this area of operation to modern model and required flows of equalizing the strategy. In the general form strategy can be defined as the skill of directing the available potentials for the purpose of realizing the long-term goals, and it always includes two basic elements of planning: the preparation for action and conducting the action. The strategic management task is to adjust all the so-far existing and future operational capabilities and business possibilities of the organization on the long run to changes and challenges of the environment. When choosing the strategies, the risk of adopting the proposed strategy must also be taken into consideration, as well as the existence of the proposed strategy and its sustainability according to the policy of the organization development related to the real requirements and needs of the environment, the connection of

the strategy with the existing and future limitations in the organizational sense with regards to the available resources, the employees' potential, development of the technologies and organization, as well as the possibility for real realization of the selected strategies under conditions that are supposed to be imposed by the ambient.

The management also presupposes the making-decisions on the changes, which can be defined as a complex process of forming the possible actions through the forecast, making the scenario and final choice of the actions, providing the best chances for the realization of the business efficacy goals, for overcoming the certain problems in the organization, but also for reaching the desired situation or position, for example, on the market. Information occurs as the foundation of management and today it represents a true fortune in the modern world. All the activities, processes and the changes themselves happen within a certain time span. The prediction is a condition for successful planning, because time as the category is one of the natural dimensions having no replacement. The system of information on the qualitative and quantitative parameters that can be planned make the basis for establishing the prognosis itself, the reliability of which contributes and raises the planning quality, because the prognostics statements per their function go ahead the plan projections and make the basis for adjusting and continual reassessment of the planned decisions.

The plans as the regulations or general acts are the starting documents in performing the primary function of management that is directed to establishment of goals and main directions of the organization's activities, and also for defining the modes of their realization. In essence, all managerial functions are dependent and to a certain extent subordinated to planning as the basic function by which the conditions for realization of the strategically operative goals of the organization are defined. "The goals of the strategy and plans represent basic elements of the system of planning the company's development, and the planning systems with the organization and control of the accomplished results represents the basis of the strategic and operative management" [8, pg. 109].

According to the hierarchical levels the planning can be divided on the strategic planning by which the set of long-term and medium term tasks is formed with the selected functions and resources necessary for their realization; the long-term planning (period of 10-20 years) that globally defines the structure and the resources quality necessary for the realization of the strategic goals; and the action planning including the set of tactic activities of the organization for promotion of the internal coordination, improvement of interpersonal relations, increasing of the labour motivation, etc. "For each course of activities it is necessary to compose the own plan of operation, perform the allocation of the resources and estimate the possible outcomes of the future operations and their consequences" [12, pg. 175]. For the performance planning having in mind the company's capability to fulfill the tasks, it is primarily started with the established maximum capacity that can be put into effect and according to the locations of performing the work and locations of the costs origination. The company's plan represents the system of information formed per the structure according to the needs, whereas the planning as the activity of managing, is the function of the management. The management activities that support the goals and tasks of the company according to the necessary resources and set temporal deadlines make a plan representing the total system of the previously made decisions by which it is defined who, what and for what time should do and what basic and additional resources should be provided. Taking this into account, we can state that precisely the general and other acts, i.e. the regulations in the unique technical-technological system carry the information on the contents of these decisions transformed into the documents of the system or the instructions on the manner of execution of certain tasks.

## **5. REGULATIONS IN THE FUNCTION OF MANAGING**

Each manager has a need to communicate, and the part of the communication are the regulations intended for, i.e. directed to all the structures, so that from one location of the level of the highest managing body, adopted by the regulation, a linear one-way communication with the structures within the organization is provided by one written act.

For the purpose of the goals, the company the company should organize itself so that the technical, organizational and human factors, influencing on the quality of its business operations, are kept under control. The control should be directed to the decrease and removal of the most important specific deficiencies in view of the quality. It is a direct task of management which instrument of mass communication is the general collection of regulations and instructions that are necessary to the large business system. The optimal measure of standardizing the actions, procedures, behaviour is expressed by the constant need that the regulations regulate all the segments of business operations, but not to limit anything in the execution of the tasks themselves, leading to the possibility of business operations advancement.

The management is directed to the solving of the problem of organizational complexity, because it is composed of the real and imaginary dimensions, and it is directed and adjusting to changes and challenges by the management, where besides the subjective characteristics of the manager on the managing style influence the type of organization as well as the characteristics of the subordinates. The management is the process of

directing the personnel resources of the organization according to the defined goals and represents the basic managerial function for the preparation, coordination and leading the individuals towards the accomplishment of the operational efficacy. by managing the employees through the mutual cooperation, communication or the allocation, the operational engagement and motivation of the subordinates to perform the set tasks is influenced on. The performers of the managing function can be the individuals or groups with special authorizations or organizational status on the individual organizational levels. The management acts on the operational productivity, the volume of the products' and services' quality, the workers' motivation, the timely performance of the operative tasks and causes of dissatisfaction of the workers, etc.

“The managing functions represent the set of operations performed by the managers for the purpose of coordination and increase of the operational and employees' efficiency. Planning is the significant managing function within which it is defined what is going to be done, when, in what way and with what efficiency. Organizing includes the jobs systematization, defining the structure and complexity of work, determining the necessary knowledge and operational capabilities of workers and defining the levels of responsibilities for their performance. By the personnel policy, as the function of the management, it is provided that the personnel potentials as the basis of operational and business efficacy” [8, pg. 193]. The regulations are a great support to the management function, because they determine in advance the significant part of operations and besides the organizational structure they also define the way of doing business, the actions and procedures, the standards and quality levels, thereby making easier the management process, because the basis is set on which the segment can be added on related to the managers capabilities to initiate the more efficient performance of the operational tasks by the direct performers.

The motivation in an organization can be defined as the directed behaviour of the employees towards reaching the organizational goals, along with the simultaneous satisfying their personal needs and goals, but it can be said that the small number of workers is actually motivated to use their total work potentials to work more fast and efficiently. “The manager in the process of work should constantly encourage the independence, creativity and intuition, but it can also be imposed partly from the organization's structure” [12, pg. 317]. The workers behaviour can be directed, in the segment of the allowed or wanted, by the regulations that within the frame of the regulatory provisions also have the predicted sanctions for non-permissible actions or negative results of work, explicitly expressed by certain procedures and actions, and predict certain penalties for their non-performance. if the mandatory forms of conduct and sanctions for non-fulfillment and execution of the obligations were not clearly predicted, the plans, no matter how good they are, could not be realized. it could also lead to the more often change of the workers and therewith to the destabilization of the organization and making the realization of the planned more difficult. Clearly prescribed rights, obligations, duties and responsibilities make the basis of the stabile system that is functioning and having the capacities for the realization of the well designed plan. The flexibility can provide the necessary communication, but it can also be abolished if it is harmful.

## 6. CONCLUSION

It can be stated that the good regulations and their harmonization that is strategically directed towards the more efficient business operations, is one of the development factors and an important foundation of the modern business systems functioning.

The relation towards the necessity of the regulations, the attitude on their suitability, but also the application of the regulations in practice, defines the real state in the complete organization or individual segments of the system. Each wrongly introduced regulation can cause much damage in operations of the large business system and can even have the catastrophic consequences for certain segments.

By introducing the modern principles of management also in the area of the regulations in the large business systems, where there are great internal reserves for improving the quality of the organization and the operational processes, has to positively reflect to a large extent on the total business operations. Additionally, if we accept the fact, that does not need to be specially proven, that each work has to be done in an expertly and knowing way, and that the quality starts and ends with education, then we need to note that the regulations are the documented data base and knowledge base used besides the managing function also for the permanent schooling, education and training of the employees.

The regulations provide the necessary information and represent the set of norms of the required conduct for directing and leading of the certain elements of the system, i.e. organization found at the turbulent, economic, technological, cultural, political, educational and legal ambient, and the adaptation of the organization to the changes and demands defined by the ambient, represents the main task of the total management function of the labour organization. Finally, one of the constant tasks of the management is the evaluation of the regulations as well, because the question is posed therein whether to estimate and how to estimate the value of the regulations as the system of general acts related to the quantitative and qualitative demands. The regulations' adaptation for

the purpose of their actuality has to be permanently performed, by providing the amendments and supplements or by issuing the new or refined text and the purpose is to constantly maintain the possibility of timely availability of information and knowledge they contain related to the actions and procedures of the business process itself. The danger can exist only from the disintegration of the regulations. The general norm is necessary, whereas the regulations that would regulate too thoroughly the relations in the system's functioning could be burdening. The regulation can never regulate life to the finest details. It is often proven in practice that the more detailed the regulations there are the more legal gaps. The disintegration of the regulations sometimes makes an impression of over-standardization, even though the over-standardization does not exist but only the bad regulations that can decrease the management efficacy.

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## CONCEPT OF DENOMINATION LEVEL OF CAPACITIES AND ITS INFLUENCE ON DECISION MAKING OF MANAGERS

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***Summary:** Determination of the 'right' level of capacities of production is one of the greatest challenges and tasks that managers face with. Having too much capacities in relation to demand is making great expenses which are linked to unused capacities. Having less capacities means that demand of some buyers for products will not be satisfied. Buyers can look for other sources of supply. It is specially important to emphasize how systems of normal and standard expenses are not always capable to give us reports about expenses on time and in right way during accountance period. Choice of denominators used for schedule of planned fixed productional expenses on products can have great influence on results that will be received and done by usage of systems of normal or standard expenses during accountance period.*

***Key words:** Financial report, denomination level, manager planning, expenses of production, capacities of production*

### 1. INTRODUCTION

Central question when one is deciding about denomination level of capacities of production is its influence on making manager and marketing decisions. The mark of success will be evaluated and choice between normal capacity and capacity based on general plan. Normal capacity is often used as basis for long-term planning. It depends on chosen time, prognosis made for every year and weight of prognosis. However, normal scope is an average that has no real importance about feed back for a certain year. Obligation that normal capacity is used as reference for evaluation of flowing success is an example of wrong usage of long-term measure for short term purpose. Capacity that is according to general plan is much better for evaluation of flowing results than normal capacity or practical capacity. The general plan is short term planning and control. Managers feel much more responsible to reach the levels that are set in general budget, which can be carefully brought into connection with maximal possibilities of sale in flowing period.

When there are great differences between practical capacity and capacity in general plan, companies classify a part of those differences as planned unused capacity. The key reason for this approach is mark of success.

### 2. THEORETICAL CAPACITY AND PRACTICAL CAPACITY

The term *capacity* means 'limitation' 'upper limits'. Theoretical capacity is a concept of denomination level which is based on production with full efficiency. For example, the company makes 10.000 packages of some product by shift when lines for production work in maximal speed. According to that, if we assume that there are 360 days in a year, theoretically annual capacity for three eight hour shifts per day is:

$$10.000 \text{ packages per shift} \times 3 \text{ shifts} \times 360 \text{ days} = 10.800.000 \text{ packages}$$

Theoretical capacity is theoretical in that sense that it does not allow any maintenance of equipment, constant production or any other factors. Ideally it represents benchmark level of usage of capacities. In normal life theoretical capacity is not appliable.

Practical capacity is concept of denomination level which decreases theoretical capacity for inevitable breaks in operations such as evitable termination because of maintenance, termination of work of equipment because of

holiday etc. Let's assume that practical rate of production or production is 8.000 packages of some product and that workers can work only 300 days a year. Practical annual capacity of it is:

$$8.000 \text{ packages per shift} \times 3 \text{ shifts} \times 300 \text{ days} = 7.200.000 \text{ packages}$$

Machine and human factor are very important when evaluating theoretical and practical capacity (engineers in the company can insure entering information about technical possibilities of machines). Factor of human certainty, such as increase of risk of work when lines are working with high speed, is also important when evaluating capacity.

### 3. NORMAL CAPACITY AND PLANNED CAPACITY

Both theoretical and practical capacity determines denomination level on basis of what companies can produce. In difference to these two concepts, normal capacity and planned capacity determine denomination level in relation to the level of demand of some product. On many instances, planned demand is importantly above usable capacity of production.

Normal capacity is a concept of denomination level based on level of capacity which satisfies average demand of buyers in certain time period (2-3 years) and includes seasonal and trend factors. Capacity according to the general plan is concept of denomination level based on expected level of capacity for following period for which one is making plan (typically one year). These two denomination level can be different, for example, when industry has periods of high and low demand or when management believes that planned production for the following period is not demand on 'long-term'. [8, pp. 112].

Let's look at our example of production of a product. The general plan for year 2008. was determined on production of 4.000.000 packages of a product. So, denomination level in the general plan is 4.000.000 packages of a product. However, the higher management believes that in the following three years they will have normal annual level of production of 5.000.000 packages of a product. They see planned production level for 2008. as 'abnormally' low level. Why? Because the main competitor has importantly decreased its sale price and spent means on commercial. The company expects that lower price and marketing boom will not be long-term phenomenon and that lost part of the market they will get in 2009.

### 4. MAKING MANAGER AND MARKETING DECISIONS AND CHOICE OF DENOMINATION LEVEL OF CAPACITY OF PRODUCTION IN THE COMPANIES

Data about expenses calculated according to system of normal expenses or standard expenses are usually used for determination of prices and making decisions about products. Standard variable expenses of production are 5.20 per package. Total standard expenses of production per package according to alternative concepts of denomination levels of capacities are:

**Table 1:** Example: Total standard expenses of production

Concept of denomination level of capacity	Variable expenses of production per package	Planned rate of fixed general expenses of production per package	Total expenses of production per package
(1)	(2)	(3)	(4)=(2)+(3)
Theoretical capacity	5.20 n.j.	0.50 n.j.	5.70 n.j.
Practical capacity	5.20	0.75	5.95
Normal capacity	5.20	1.08	6.28
Capacity according to the general plan	5.20	1.35	6.55

Management often wants for its equipment to work in full capacity. Where expenses of products are used as basis for determination of prices, some managers say that by choice of practical capacity as denomination level lower prices are caused and scope of production is maximized.

Usage of normal capacity or capacity according to general plan can result in such a way that expenses of capacities are divided on small number of exit units. This situation is dangerous, because it can cause high uncompetitive selling price. The concept of spiral decrease of demand for some products refers to this situation. That constant decrease of demand that is made when prices of competitors are not the same and demand is decreasing, resulting with even higher expenses by unit [8, pp. 191].

In order to illustrate spiral decrease of demand, let's assume that the company uses the main plan capacity of



4.000.000 packages for calculation of expenses of products in 2008. The productional expenses would be 6.55 n.j. per package of some product (5.20 n.j. variable productional expenses (1.35 n.j. fixed general expenses of production). Hypothetically, let's assume that competitor in December 2008. offers to supply the main buyer (planned to buy 1.000.000 packages of some product in 2008) per 6.25 n.j. per package. Manager, not wanting to show loss on the account, misses the chance to catch competitors and number of units that he could sell is lost. Planned fixed expenses of production of 5.400.000 n.j. will now be divided on 3.000.000 packages per rate of 1.80 n.j. per package (5.400.000 n.j./3.000.000 packages). Let's assume that another buyer – who also was planned to buy 1.000.000 packages, took an offer from competitors for 6.60 n.j. per package. Let's assume that manager again compares the offered price of competitors 6.60 n.j. with new unit expense of 7.00 n.j. per package (5.20 n.j. + 1.80 n.j.) and again misses the chance to catch the competitor and loses next 1.000.000 packages. The planned exit of the product is now narrowed to 2.000.000 packages. Planned fixed expenses of production per unit for the 2.000.000 packages will now be 2.70 n.j. (5.400.000 n.j./2.000.000 packages). Effects of division of fixed expenses of production on narrowed planned capacity are the following:

**Table 2:** Example: Total expenses of production

Denomination level of capacities according to the main plan (packages)	Variable expenses of production per package	Fixed expenses of production divided per package	Total expenses of production per package
(1)	(2)	(3)	(4)=(2)+(3)
4,000.000	5.20 n.j.	1.35 n.j.	6.55 n.j.
3,000.000	5.20 n.j.	1.80	7.00
2,000.000	5.20 n.j.	2.70	7.90
1,000.000	5.20 n.j.	5.40	10.60

Previous hypothetical scenario of determination of prices, assumes that reaching a decision about the price of buyers is under great influence of unit expenses given in the table. However, manager of production who makes the decision about prices can have difficulties to explain to others why unit expenses insure minimal basis for determination of prices on current basis.

Usage of theoretical or practical capacity as concept of denomination level can help us avoid changes of unit expenses when expected levels of demand are changing. For managers who use unit expenses from reports to relatively mechanical way to determine prices, it is less sure that promoted concept of spiral decrease of demand of some product when theoretical or practical capacity is used than when normal capacity or capacity according to general plan is used [2, pp. 176].

Choice of denomination level will influence the greatness of good\bad changes from the scope of production according to absorption calculation of expenses.

Let's return to our example of the company and assume that the real production in 2008. was 4.400.000 packages of some product. Real sale in 2008. was 4.200.000 packages of some product. Also, let's assume that there were no starting stocks for 208. and no prices, expenses or changes in productional expenses. Planned and real fixed general expenses of production are 5.400.000 n.j. Average selling price per package of some product for all clients is 8.00 n.j.

Every concept of denomination level of capacity will result with different changes in the scope of production.

$$\text{Changes in the Scope of production} = \frac{\text{Denomination level in exit units}}{\text{Real exit units}} \times \text{Planned rate of fixed general expenses per exit unit}$$

$$\text{Practical capacity} = (1.200.000 - 4.400.000) \times 0,15 \text{ n.j.} = 2.100.000$$

$$\text{Normal capacity} = (5.000.000 - 4.400.000) \times 1.08 \text{ n.j.} = 648.000$$

$$\begin{aligned} \text{Capacity according to general plan} = \\ = (4.000.000 - 4.400.000) \times 1,35 \text{ n.j.} = 540.000 \text{ n.j.} \end{aligned}$$

Influence of changes in scope of production on financial reports at the end of period will depend on how the company treats changes at the end of the period.

There are three alternative approaches:

1. *Approach of set allocation rate:* This approach changes (calculates again) all amounts in the main book by usage of rate of real expenses rather than by usage of rate of planned expenses [9, pp. 139]. Since, the given real fixed general expenses of production are 5.400.000 n.j. and real production is 4.400.000 jedinica, changed rate of fixed general expenses of production is 1,23 n.j. (circled to the closest cent) per package. According to this approach the choice of denomination level does not have influence on financial reports at the end of period. This

practically means that system of calculation of real calculations of real expenses was adopted at the end of period.

2. *Proportional approach*. Set general expenses are divided on: a) final condition of production, b) final condition of stocks of final goods and c) expenses of sold goods. This approach calculates again the final numbers under a), b) and c) on those which would be according the rate of real expenses rather than those that would be according to rate of planned expenses [13, pp. 187]. Usage of this approach, choice of denomination level, also, does not have influence on financial reports at the end of period.

3. *Approach of write-off of changes to the level of expenses of sold goods*: Previous example shows how usage of this approach influences the operational income of the company for 2008. Let's remember that the company does not have starting condition of stocks, that production is 4.400.000 packages of some product and that they sell 4.200.000 packages of some product. According to that, the condition of stocks on December 31st, 2008. is 200.000 packages of some product. Usage of capacities determined by general plan as denomination level, results with writing on the highest amount of fixed general productional expenses per package on 200.000 packages of some product. According to that, operational income is the highest if we use the concept of capacities according to the general plan.

According to that, difference of 54.000 n.j. (3.820.000 n.j. - 3.766.000 n.j.) between operational income according to the concept of capacity of general plan and concept of normal capacity comes from the difference between fixed general expenses of production which are stocked, written to stocks (270.000 n.j. - 216.000 n.j.).

**Table 3:** Example: Fixed general expenses of production in stocks

	Fixed general expenses of production in stocks on December 31 <sup>st</sup> , 2008.
Theoretical capacity	$200.000 \times 0,50 \text{ n.j.} = 100.000 \text{ n.j.}$
Practical capacity	$200.000 \times 0,75 = 150.000$
Normal capacity	$200.000 \times 1,08 = 216.000$
Capacity according to general plan	$200.000 \times 1,35 = 270.000$

There are no demands according to which the company should use the same concept of denomination level of capacity, for let's say, manager planning and control, for outer report to stock holders and for the needs of calculation of taxes on income. Managers look at individual factors with the choice of special needs and purpose of decision making, including effects on decision making, regulatory demands, and difficulties with prognosis. General direction which should be followed is expense-benefit approach. This approach can use analysis of expenses of report and education of managers, influence of motivation on choice of managers and system of rewards of managers and other sides.

## 5. CONCLUSION

Concept of practical capacity measures capability and possibility of capacities for production. Managers can use engineer studies and see human potentials to get real evaluation of this concept in planned period (period for which we make a plan). Opposite to that, it is much harder to have real evaluation of normal capacity.

Managers bring inevitability about demand (even in their own capacities), and having in mind all uncertainties about reaching decisions for planning of capacities. The company based its practical capacity partially because of response to all possible movements in demand. The income of it is that the company will be able to fulfill all demands of sudden movements and changes in demand and justify existence of unused capacities in some periods.

The rate of fixed general expenses of production is based on numbers (planned fixed general expenses of production) and on denomination level. This example, also, emphasizes how the question of expenses of capacities, is applied on all companies that have productional operations no matter the stocks.

Expenses of capacities, also, appear in unproductive parts of chain of value just like productional expenses. For example, the company can get the whole driving park for transport and distribution of practical capacity of production of some product. When the real production is less than practical capacity, then the question of expenses of unused capacity in sense of distribution and sense of production is real.

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## INTEREST RATE RISK AND IMPACT ON ASSETS AND LIABILITIES MANAGEMENT

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**Summary:** *The purpose of this paper is to point out to one of the most significant problems the financial institutions managers face daily. Changes in market interest rates can jeopardize financial institution's profitability and even destroy the total capital or a part of the capital the share holders have invested in the related institution. Especially reactive to interest rates changes are banks due to incompatibility of their inconstant short term liability (mainly deposits) with long term assets (mainly loans). The risk of profit decrease due to the level of interest rates represents the interest risk to the bank. Exposure of banks to this kind of risk stems from most of their balance sheets items generating incomes and expenses that are accorded with the interest rates. For example, a bank has a concluded agreement on credit with a client according to variable interest rate is exposed to the risk of recording the downfall of incomes if the downfall of market interest rates occurs. Contrary to it, the credit beneficiary comes into an unfavorable position, i.e. having greater expenses if there comes to increase of interest rates on the market. Further, it is my goal to point to the most popular methods, i.e. strategies of interest rates hedging applied nowadays (managing disparity reactive to interest rate as well as managing disparity duration). With regards to interest rates risk, one of the most important goals is profit protection (net income after taxation and all other expenses) from the influence of fluctuating interest rates.*

**Key words:** - Assets and liabilities management, -Resources management, - Interest rates risk, - Price risk and reinvestment risk, -Yield of maturity (YTM)- Maturity disparity, - Managing disparity sensitive on interest,- Disparity duration management.

### 1. INTRODUCTION

An interest is a cost of using credit and financial resources on financial market. The interest level should stimulate future consumption in relation to current consumption of financial excesses owner.

*Interest rate* is an instrument for balancing the scope of capital savings and offer with financial resources demand. Income distribution on consumption and investments is performed by interest rate as well as the financial resources mobility and allocation. Interest rate is a real rate of capital yield.

Interest rate can be:

- Balancing (natural) interest rate – it is formed at balancing the scope of capital offer (credit) and capital demand.
- Market interest rate- it is formed on financial market as the result of ration of credit, i.e. financial resources offer and demand.

On the long run, there is equilibrium among the mentioned interests, whereas on the short term basis there are disparities conditioned by the changes of prices [6].

### 2. MARKET RATES AND INTEREST RATE RISK

One of the most powerful factors of risks faced by the financial institutions managers is *the interest rates risk*. The managers cannot control market interest rates or the tendencies of interest rates flows on the market, instead, they have to learn how to respond to the interest rates changes in order to control the risk exposure and achieve the goals.

In the market interest rates flow, banks and their competitors face with at least two main types of **credit risk-price risk and reinvestments risk**.

*Price risk* occurs when market interest rates increase, causing downfall of market value of most bonds and loans having the fixed interest rate. If the financial institution wants to sell these financial instruments in period when the interest rates are rising, then it has to be prepared to accept losses with respect to the capital.

*Reinvestments risk* appears when the market interest rates decrease, forcing the financial company to invest funds coming into the funds bearing lesser income, thus decreasing the future expected income.

**Interest rate is the price of credit demanded by the creditors as the compensation for using the funds given as the loan.** Most simply said, interest rate is a coefficient of provision that we have to pay so that we could use the credit, allocated with the amount of granted credit [6].

## 2.1. Ways of determining interest rates

One of the most popular ways of determining interest rates is **yield to maturity (YTM)**, representing the discount rate equalizing the current market value of the loan or of security with the predicted future payment inflow on the basis of the loan or security. Namely, the expected yield rate according to the debit securities from the values adhered to their maturity date, are based on the purchasing price of the securities, agreed interest payments and value of the security at the moment of maturity [6].

**Yield to maturity can be calculated using the following formula:**

$$\begin{aligned} \text{Current market value} &= \frac{\text{Predicted flow cash in Period 1}}{(1+YTM)^1} + \frac{\text{Predicted flow cash in Period 2}}{(1+YTM)^2} \\ &+ \dots + \frac{\text{Predicted flow cash in Period n}}{(1+YTM)^n} + \frac{\text{Purchasing or redemption price of security or loan in Period n}}{(1+YTM)^n} \end{aligned}$$

For example, the security purchased today at price of \$950, with predicted interest of \$100 in the period during the next three years, after the period of which an eminent will redempt the securities for \$1000, will bear the expected interest rate, based on the principle of yield to maturity, as seen from the following:

$$950\$ = \frac{100\$}{(1+YTM)^1} + \frac{100\$}{(1+YTM)^2} + \frac{100\$}{(1+YTM)^3} + \frac{100\$}{(1+YTM)^3}$$

It has been determined that the yield to maturity of the security will be 12,10% (Financial ways of calculating and programs, such as Excel will provide calculation of this figure for the yield to maturity immediately after entering the purchasing price of the security, the expected interest payment, the selling price or redemption price, and the period it relates to).

The next popular way of determining interest rates is **bank's discount rate**, usually granted for short term loans and securities of money-market (such as the Treasury records of the United States).

**Formula for calculating the discount rate (DR) is the following:**

$$DR = \left( \frac{100 - \text{Purchasing price for loans or securities}}{100} \right) \times \frac{360}{\text{Number of days to maturity}}$$

For example, let us suppose that the loan or securities can be purchased on the money-market at price of \$96 and that it has the nominal value of \$100, payable on the maturity date, if the loan or securities mature in 90 days, the interest rate, determined according to DR of the bank will be:

$$DR = \frac{(100 - 96)}{100} \times \frac{360}{90} = 0,16 \text{ or } 16 \text{ percent}$$

This way of determining interest rate does not predict interest on interest and it is based on a year of 360 days, in contrast to the principle of yield to maturity, based on a year of 365 days and predicting the return from interest on interest at calculating the yield to maturity (YTM).

### 3. INTEREST RATES COMPONENTS

Besides the problem of predicting interest rate, there is also the fact that any determined interest rate for loan or securities is composed of multiple components or constituent totals, including:

Market interest Rate for risky loans or securities	=	Real interest rate without risk (such as income from state bonds accorded with inflation rate)	+	Premium for risk as compensation creditors that accept risky IOU with regards to non-performance payment (credit), inflation risk, maturity or term risk, marketing risk,
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Not only that real *interest rates without risk* change in time according to the drifts in demand and offer of the loan resources, but also the perceptions of creditors and debtors on financial market in relation to each *premium for risk*, influencing on certain market interest rates for risky loans or securities, also change in time, causing often with dizzy speed flow of market interest rates upwards or downwards.

**Premiums for risk** – The component of *premium for risk of non-performance of obligations* in view of the interest rate calculated as risky will increase at the debtor, therewith increasing the loan rate of the debtor (and all other factors will remain unchanged). For example, when economy is found in recession, with decreased scope of business operations and increase of unemployment, many creditors will come to conclusion that some companies will collapse, and some individuals will be dismissed, thereby increasing the risk of non-performance of obligations of the debtors.

**Premiums for maturity or term** – Another key component of any interest rate is *premium for maturity or term*. Long term loans and securities often draw along higher market interest rates than short term loans and securities due to risk of maturity because of greater possibilities of losses due to long term duration of the loan [6].

### 4. HEDGING METHODS FOR MANAGING INTEREST RATES RISKS

In order to protect profit from negative influences of changes in interest rates, management demands that *net interest margin (NIM)* [3] of the financial institution remains fixed, expressed in the following way:

$$\text{NIM} = \frac{\left( \begin{array}{c} \text{Return interest} \\ \text{per loans} \\ \text{and investments} \end{array} - \begin{array}{c} \text{Costs per interest} \\ \text{on deposits and other} \\ \text{borrowed funds} \end{array} \right)}{\text{Total return-based assets}} = \frac{\text{Net return interest after costs}}{\text{Total return-based assets}}$$

For example, let us suppose that a large international bank expresses 4 billion of \$ return interest on its loans and investments into securities and 2,6 billion \$ of costs per interest paid for attracting deposits and other borrowed resources.

If this bank has 40 billion \$ of the return-based assets, its margin of net interest is:

$$\text{NIM} = \frac{(4 \text{ billion \$} - 2.6 \text{ billion \$})}{40 \text{ billion \$}} \times 100 = 3.50 \text{ percent}$$

Pay attention to how small this margin of net interest of only 3.5 percent, which does not represent this bank's profit from the loans taken or granted loans because the costs not incurred on interest have not been taken into account (such as the employees pays and overheads).

If the interest costs per borrowed funds rise faster than the return per loans and securities, the bank's NIM will wear out with negative consequences on the bank's profit. If the interest costs fall, causing faster fall of return per loans and securities than the interest costs per borrowed funds, the bank's NIM will again be worn out.

#### 4.1. Managing disparity reactive to interest

One of the most popular strategies of hedging, i.e. the method of managing interest rates risk used nowadays is *managing disparity reactive to interest*. This technique is based on protecting or maximum increase of net interest margin of every financial institution or ratio of the return on interest and costs per interest. Managers determine for each specific period ('bucket' maturities) whether their company is *reactive to assets* (with positive balance of assets reactive to interest rate), or *reactive to liabilities* (with greater amount of liabilities reactive to interest rate than the amount of assets reactive to interest rate). These disparities reactive to interest

are then compared with the financial company's prediction with regards to the interest rates, and management undertakes appropriate steps (such as applying the financial futures agreements or shifting the portfolio of assets and/or liabilities) in order to protect the financial institution's net interest margin.

**The disparity** [5] is a part of financial statement affected by the interest risk:

$$\text{Disparity reactive to interest} = \text{Assets reactive to interest} - \text{Liabilities reactive to interest}$$

If in each plan period (daily, weekly, monthly, etc.) the amount of assets reactive to interest is greater than the amount of liabilities reactive to interest subjected to price re-forming, it is considered that such financial institution has a *positive disparity* and that it is *reactive to assets*. IT means that:

$$\text{Positive disparity reactive to assets} = \text{Assets reactive to interest} - \text{Liabilities reactive to interest} > 0$$

In opposite situation, let us assume that the bank's liability reactive to interest is greater than the assets reactive to interest. In that case, the bank has a *negative disparity* and it is said that it is *reactive to liabilities*. Accordingly:

$$\text{Disparity reactive to liability (negative)} = \text{Assets reactive to interest} - \text{Liabilities reactive to interest} < 0$$

Managing disparity reactive to interest- enables managers to reduce the possibility of losses in relation to their institution's *net interest margin*, as if decreasing the margin due to changes in market interest rates.

#### 4.2. Using duration as hedging in relation to interest risk

**Duration** is a value and temporal measure of maturity implying temporal aspect of all inflows of cash from the income-based assets, as well as of all outflows of cash related to liabilities. Duration is also a measure of average of expected future cash payments' maturity (such as payments that a bank or a savings institution expects on the basis of loans or securities). Altogether, duration is a measure of average period necessary for collection of funds invested in a single investment. Based on *the concept of duration*, the value and period maturities- banks' managers and many of their competitors have learned how to estimate their exposure to loss of net value based on the changes of values of assets and liabilities, when market interest rates change. This technique points to importance of avoiding great disparities between financial company's assets portfolio duration related to the liabilities portfolio duration [5].

A bank or some other financial institution that wants to completely protect itself from interest rates fluctuations, decides on the assets and liabilities as shown herein:

$$\text{Dollar duration of assets portfolio} = \text{Dollar duration of liabilities}$$

so that **the disparity duration** is as nearer as possible to zero:

$$\text{Disparity duration} = \text{Dollar duration of assets portfolio} - \text{Dollar duration of liabilities portfolio}$$

Since the dollar amount of assets is greater than the dollar amount of liabilities (otherwise, the financial company would be insolvent), the financial institution wanting to decrease to the smallest extent possible the influences of interest rates fluctuations, has to perform adjustments for *leverage* [6]:

$$\text{Disparity duration with accorded "leverage"} = \text{Dollar duration of assets portfolio} - \text{Dollar duration of liabilities portfolio} \times \frac{\text{Total liabilities}}{\text{Total assets}}$$

The equation points that the amount of the liabilities has to change for somewhat higher than the amount of the assets in order to remove the total exposure of the financial institution to interest risk.

The greater disparity duration with accorded leverage, the more reactive will the net value be (share capital) of the financial institution in relation to the changes in market interest rates.

## 5. CONCLUSION

Interest rates' principles are: Maintaining interest margin as stable as possible, according the term, sector and currency structure of balance, as well as conceptualizing the adequate arrangements and instruments of limitations, transferal and absorption of interest risks.

In realization of basic principles of interest policy, banks use the following methods: Permanent accordance of active costing and passive expenses of interest rates, balancing of the assets and liabilities balances reactive to changes of interest rates and using protective hedging methods from interest risks.

The danger worrying many market analysts dealing with risk is that interest rates can actually rise much faster than predicted and thus lead a bank to significant losses in view of their swap positions.

If the management predicts the interest rate increase, perhaps the incoming loss in returns can be avoided in the way that different allocation of assets and liabilities will be performed in order to decrease the cumulative disparity, or the instruments of hedging will be applied.

One of the most popular strategies of hedging, i.e. the method of managing interest rates risk used nowadays is *managing disparity reactive to interest*. This technique is based on protecting or maximum increase of net interest margin of every financial institution or ratio of the return on interest and costs per interest. Managing disparity reactive to interest- enables managers to reduce the possibility of losses in relation to their institution's net interest margin, as if decreasing the margin due to changes in market interest rates.

However, managing disparity reactive to interest does not have to mean protection from one more important dimension of business operations of their financial company, its *net value* or values of investments of the share holders into the institution. This goal has lead to introduction of one more method for managing assets and liabilities – *managing disparity duration*.

Based on the concept of *duration*, the value and period maturities- banks' managers and many of their competitors have learned how to estimate their exposure to loss of net value based on the changes of values of assets and liabilities, when market interest rates change.

*Risk in all of his forms- interest rates risk, market risk, non-performance risk, price risk, reinvestments risk, etc.- cannot be avoided. Instead, it has to be adequately managed if it is wished that the financial institution survives and advances.*

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## MARKET SEGMENTATION

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**Summary:** *This paper explains the concept of market, i.e. a group of individuals and/or organization sharing a specific need and who are able to function in exchange to satisfy the need. The market has become increasingly dynamic and thus prone to changes leading to market segmentation. Further, it considers market segmentation, i.e. a creative and renovating process whose purpose is to satisfy buyer's needs and create competitive advantage of the company. The market segmentation is composed of two activities: market segments identification and market segments profiling. Numerous are the criteria by which it is possible to observe and divide all the buyers into segments but mostly those which can be checked and mostly used are stated: geographic segmentation, demographic segmentation, psychological segmentation, psychographic segmentation, socio-cultural segmentation, segmentation connected to consumption intensity, product or service usefulness and hybrid segmentation, explained in the paper. Additionally, it deals with market segmentation criteria (uniqueness, measurability, availability, profitability and operability). Conclusive remarks prove the saying of Bill Gates: "Don't follow cleared paths, make your own and leave steps behind".*

**Key words:** market, aimed marketing, consumer, market segmentation, individuality, measurability, gradability, profitability, operability.

### 1. CONCEPT AND PURPOSE OF MARKET SEGMENTATION

The concept of **market** means that a group of individuals and/ or organizations share a specific need and who are able to function in exchange to satisfy specific needs, and can be divided by:

- Wishes and needs,
- Purchasing power,
- Geographic area,
- Purchasing habits,
- Attitude to buying etc.

As a result of fast technique and technology development and shorter life cycles of a product, environment requirements, competition pressure growth, constant increase of buyer expectations, increased interest in consumer protection and general globalization, **market** becomes increasingly dynamic, so the changes conditioned by various factors, most of which can not be controlled by producers, conditioned **market segmentation**.

Successful serving and market requirements fulfilment according to market participant requirements it's necessary to know the **consumers**. To be able to establish consumer motives and wishes it is necessary to understand all the three roles in consumer behaviour, which means to understand the difference among: **consumer, buyer, and user**.

**Consumers** are considered to be the subjects who want or wish to have certain product or service, who are financially capable and ready to act in buying and thus consuming the product independently of the fact whether they have bought the product or received it as a present.

**Buyers** are considered to be the subjects who do the shopping and can be real or potential. They buy products and services to consume them themselves or give them to somebody else for further consumption, refinement, or trade, and at the same time they make the blood flow of every enterprise.

**Users** are considered to be the subjects who use a certain product or a service in certain period of time, mostly with permanent consumption items, to determine who uses a product or a service.

In theory we see numerous definitions of market segmentation depending on definition purpose.

„**Market segmentation** can be defined as a process of market division into separate under groups of consumers having mutual needs or features, and choosing one or several groups to who bidders will aim by their marketing offer“ [1, pp. 33].

So, marketing oriented enterprise sees segmentation as a process of grouping potential buyers who have similar wishes and needs, and by this you can aim certain marketing mix to reach each of them individually.

„**Segmentation** is a creative and renovating process whose purpose is to satisfy buyer needs and create competitive advantage of the company. It is defined as buyer needs (**not company needs**) and it should be renewed from time to time“[2. pp. 21].

Market segmentation origins was **mass** (undivided) marketing, which is selling of the same product, by the same recepy and instruments of marketing mix.

(Example: Henry Ford and selling model T „ which colour it is, only as it is black“ ), as a phase of various products or productionally differentiated marketing which assumed an approach to market with a broad assortment of basic products, to offer consumers enough choice. (Example: Production palette “Coca-Cola” which offered various Products in taste, package, colour, calorie value for different segments of consumers (children, teenagers...) as: “Sprite”, “ 7 up”, “ Diet-Cola” etc.).

Mass marketing is not used a lot nowadays, and its advantage is decreased cost, with the exception of campaigns dealing with agricultural products or producing basic half products. Enterprises oriented themselves to **aimed marketing** which means „aiming the actions towards servicing one or more groups of clients who have mutual needs and features“ [3.pp. 391]. By this efficient way of acting enabled producers’ better approach to wishes and needs of buyers, developing and selling the right product for all the aimed markets, with marketing mix adaptation by which you acquire **consumer loyalty and long term profitability**, which is a base for all marketing oriented companies.

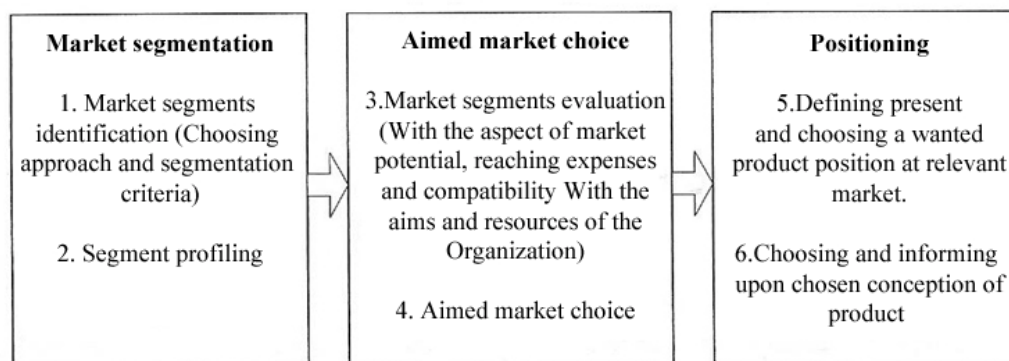
Aimed marketing benefits for a company applying it are multifolded:

- Achieving competitive advantage,
- Finding new market possibilities,
- Better resource allocation,
- Larger flexibility to changes,
- Finding offers that closely satisfies buyer expectations etc.

“Process of aimed marketing is composed out of three interconnected activities“ [4 pp. 66].

1. **Market segmentation** or an action of market division to various groups of buyers,
2. **Choosing aimed market** or an action of defining and choosing one or more market segments which will be served
3. **Positioning** or an action of formulation of appropriate competitive place of the organization or its offer for each aimed market (figure 1).

Connection of the activities of segmentation, aimed market choice and positioning of aimed marketing



**Figure 1:** Marketing management – analyses, planning, application and control

Thus „ Market segmentation is division of market at separate groups with different needs, characteristics and behaviour, which might require separate products or marketing schemes [5 pp. 391].

Segmentation as a process is composed of two activities, and those are:

- **Market segments identification and**
- **Market segments profiling.**

While identifying market segments it is necessary to choose a segmentation approach and criteria by which segmentation will be performed. Two criteria of market segmentation are known:

- Establishment approach and
- Dismembering approach.

Establishment approach implies creating segments so that individuals with their needs and wishes for the same type of the product are identified first, and then place into groups adequately to the way they react to a certain market offer.

Dismembering approach implies market division of a certain product in groups (segments) of buyers by one or more characteristics. For this approach segmentation application it is needed to define one or more criteria according the market will be divided. Both approaches may be used in certain situation, and have their advantages and disadvantages.

In modern conditions of doing business a so called **Multivariate** is used or segmentation based upon more levels. This implies market segmentation by combining more variables at the same time: age, life style, socio-economic status, geographic location and similar. Thus, market is first divided by one variable (as geographic for example), and then by sub segments in applying other variables, using different techniques, most of all:

- Automatic interaction detection and
- Cluster analyses.

As segments are identified, their **profiling** is approached. Each identified segment should be analyzed individually to be able to be informed on characteristics of its typical representative (buyer). For specific segments different profiles are mostly established. If total profiles of the segments are too similar they will offer management insufficient additional knowledge on the ways of servicing some segment with specific marketing programme.

Segmentation process and defining priorities as well as choosing segments are chosen with the following diagram review (figure 2).

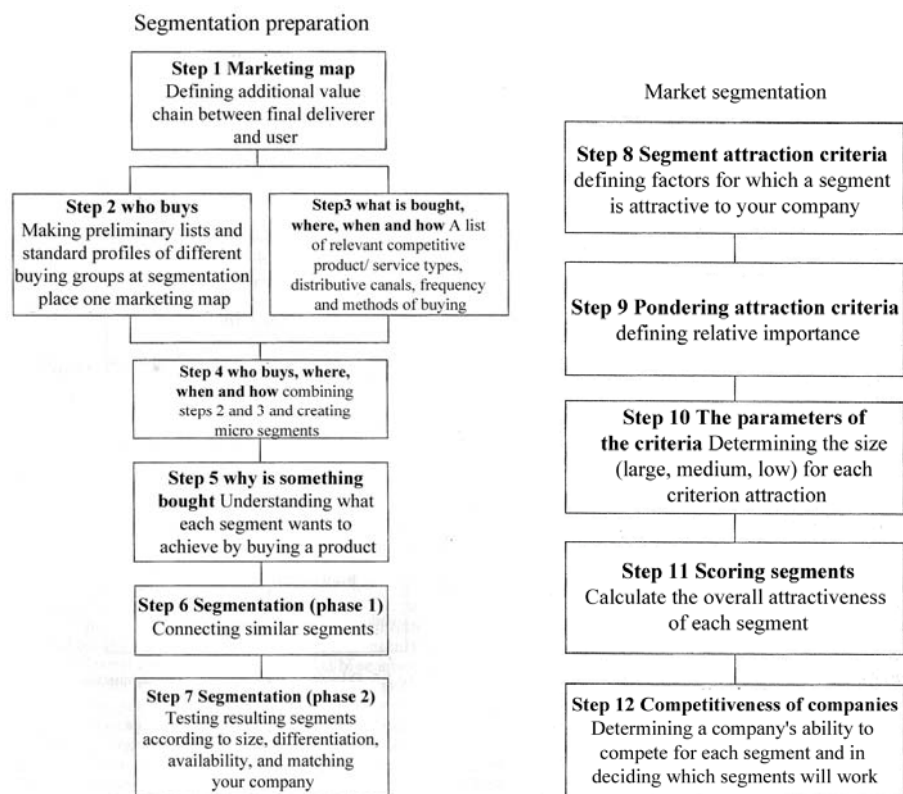


Figure 2:

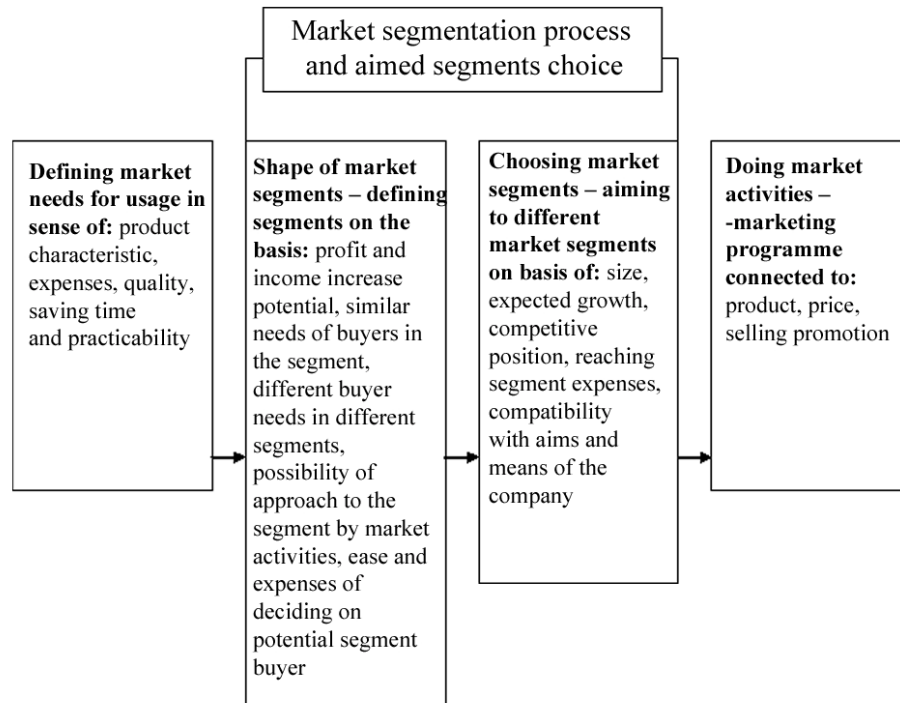
## 2. MARKET SEGMENTATION CRITERIA

Segmentation basis is made by characteristics according which buyers make difference and at the same time keep preferences to certain brand of market offer.

This is also a critical factor with defining aimed market, so with defining segments one should follow the principles stated [6 pp. 122-123]:

1. **uniqueness** – needs and wishes and ways of their satisfying should be unique and different comparing to other parts of the market, which implies uniqueness in their demand,
2. **measurability** – segment market potential should be measurable in present times and near future,

3. **availability** – segment of consumers must be available to different marketing activities (now and in immediate future) as well as the product itself should be available,
4. **profitability** – segment must be large enough (sufficient number of consumers) to be profitable with certain marketing efforts (the accent is on immediate future)
5. **operability** – a company must be capable of making and distributing of efficient marketing mix to attract and keep belongers of a segment (figure 3).



**Figure 3:** Market segmentation criteria and aimed segments defining

Numerous are the criteria by which it is possible to observe and divide all the buyers into segments but mostly those which can be checked and mostly used are stated:

#### 2.1 Geographic segmentation

#### 2.2 Demographic segmentation,

#### 2.3 Psychological segmentation,

#### 2.4 Psychographic segmentation,

#### 2.5 Socio-cultural segmentation,

#### 2.6 Segmentation connected to consumption intensity,

#### 2.7 Product or service usefulness and

#### 2.8 Hybrid segmentation

“Hybrid criteria imply a combination of one-dimensional classic criteria with an aim to separate homogenous segments which will be based on a larger number of variables and by which a specific marketing strategies will aimed “(table 1) [7, pp 34].

**2.1 Geographic segmentation** implies market division according to geographic position of a segment. People living at the same geographic location are similar in cultural characteristics, climate conditions and behaviour, food, clothing etc. There is also a difference in consumer behaviour in urban, semi-urban and rural areas, so this criterion is often used for market segmentation.

On the other hand some marketing experts state that products of high technology by internet, satellite TV etc. erased all geographic borders and that this kind of segmentation should be replaced by a new global marketing strategy. But there still are products and services which consumption is conditioned by geographic segmentation. Example: Food and drink preferences in different regions are various, (Mediterranean vs. Vojvodina food) as well as specific kinds of coffee and tea which are also geographically conditioned.

Advantage of this kind of segmentation is in lower promotion price, by local media which are considerable cheaper and more available than other types of media presentations to consumers.

**2.2 Demographic segmentation** implies market division based on consumer characteristics by demographic variables:

**2.2.1 Age, sex, marital status** - Product choice often depends on consumer age. Countries differ in population age structure and the most important demographic change in developed structures, especially in Europe and the USA where population is getting older, is conditioned by the following reasons:

1. Long term decrease in birthrate
2. Tendency to increase life standard.

**Table 1:** Criteria for market segmentation

SEGMENTATION BASE	CHOSEN SEGMENTATION VARIABLES
<b>GEOGRAPHIC SEGMENTATION</b>	
Region	Southwest, mountain areas, Alaska, Asia
City size	Capital cities, small towns, places
Population	City, suburban, out of town, rural
Climate	Mild temperatures, hot, wet, rainy
<b>DEMOGRAPHIC SEGMENTATION</b>	
Age	Under 12, 12-17, 18-34, 35-49, 50-64, 65-74, 75-99, 100+
Sex	Male, female
Marital status	Single, married, divorcee, widow, widower, living together
Income	Below \$25000, 25-34999, 35-49999, 50-74999, 75-99999, 100000+ high school, college, university, PhD
Education	Professional, blue collar worker, white collar worker
Occupation	Farmer, army
<b>PSYCHOLOGICAL SEGMENTATION</b>	
Needs and motivation	Sanctuary, safety, protection, sensibility, personal worth
Uniqueness	Extroversion, searching for news, aggression, dogmatism
Perception	Low, middle, high risk
Learning, interest	Low and high inclusion
Attitude	Positive, negative
<b>PSYCHOGRAPHIC SEGMENTATION</b>	Aimed at economy, medicine, status, adventurers
<b>SOCIO-CULTURAL SEGMENTATION</b>	
Culture	American, Italian, Chinese, Mexican, French, Pakistan
Religion	Catholic, protestant, Jew, Muslim, other
Subcultures (races)	Afro American, WASP, Hispanic
Social status	Low, middle, high
Life cycle of a family	Bachelor, young couples, large families, small families
<b>SEGMENTATION CONNECTED TO CONSUMPTION INTENSITY</b>	
Consumption rate	Heavy, middle and low users
Status consciousness	Unconscious, conscious, interested, enthusiastic
Brand loyalty	Non existent, middle, strong
<b>SEGMENTATION CONNECTED TO CONSUMPTION SITUATION</b>	
Time	Free time, job, jam, morning, night
Object	Personal consumption, gift, fun, improvement
Location	Home, job, friend's house, shop
Person	Consumer itself, family members, friends, boss
<b>USEFULNESS SEGMENTATION</b>	Suitableness, acceptability, long lasting, economical, worth for money
<b>HYBRID SEGMENTATION</b>	
Demographic / Psychographic	Combination of demographic and psychographic profiles in consumer segment profiles
Geo demographic	"Intellectuals and rich", "Black enterprise", northerners, lower middle class
<b>SRI VALS</b>	Creators, Fulfilled, believers, achievers, experienced, innovators, fighters

Differently from the previous, poor countries of Africa, Asia and South America fight survival battles, seen in fulfilling basic life needs.

Population structure by age is extremely important marker for companies in choosing product and service categories, to satisfy total requirements.

Population can be divided into 6 age groups: preschool, school age, teenagers, and young, grown-ups 25+, to 40, from 40 to 65 and older than 65. Trends applied to age groups are growing needs for fun, travel, shopping of specific products, and the possibility of sport activities, music etc. In difference to age groups there are generation groups growing and creating values during their development and forming as follows:

- A) **Generation X** – refers to people born between 1965 and 1976. This generation is not materially oriented as their parents. Their consumption is aimed at going out, cosmetics, music, travelling. They are also important market for personal computers, DVDs, CD-ROMs, on-line services and video games.
- B) **Generation Y** – are mostly baby boomer children. They are born between 1977 and 1994. They are the continuance of technological revolution and thus are buyers of all the products highly technologically precised.
- C) **Market for old** – are people over 50 years of age. This segment is divided into two segments, the first segment is called "young again" people to 65 years of age, the other group is called "grey market", for

people over 65. This market is price sensible and those are people loyal to brands they bought in earlier period of life.

**2.2.2 Population sex** – Depending on whether they are aimed at male or female consumer segments, the line of products is different and specific. Sex differentiation starts very early, colours, clothing and shoes, toys, later cosmetics and a line of various products aimed at market depending on sex [8, pp. 37].

Example: Women are traditionally the most important users of cosmetics as hair colour, while men are main users for shaving remedies.

Recently, trends have moved towards unisex products for a larger number of goods. Essentially, men and women differ in receiving and processing information. Women mostly shop to satisfy psychological and social needs, while men see shopping as a function for acquiring products and services absolutely necessary.

**2.2.3. Marital status** – Marriage and family are main cells of society, and as such they represent powerful institutions around the world. Depending on family structure, marital status, marketing experts develop marketing strategy, relating to consumer priorities. Example: Marital status (wedding, married life, divorce) creates a possibility for making products of furniture, clothing, fun, recreation etc.

**2.2.4 Income, education and occupation** – are closely connected to the way of behaviour of consumers in the sense of buying power, interest in certain products, shopping time, quantity and specifics of bought goods. In developed countries they make mutually connected chain which enables defining segments at categories of consumers. Unemployment rate is generally followed by decrease of shopping power of consumers. Occupation and at the same time income, is an important base, which is used to make structures of consumption of type, quantity, purpose and usage value of specific goods. Example: Industrial workers buy working clothes, lunch to go, while managers buy expensive suits, use services of prestige restaurants etc.

**2.3 Psychological segmentation** implies consumer division by basic values of different motives, features, personality characteristics, perception, learning and beliefs and attitudes.

**2.4 Psychographic segmentation** implies division of users based on the way – style of life, and their personal characteristics, or personal features. It is made by combining psychological variables based on life style analyses, and the most famous variable is A.I.O. (Activities, Interests and Opinions). Combined with demographic segmentation it became very respectable as a criterion for consumer segmentation. (VALS 1, 2, PRIZM etc.)

**2.5 Socio-cultural segmentation** – represents a base for market segmentation based on sociological (group) and anthropological (cultural) variables as follows:

- A- Life cycle of a family** – Each family goes through developing phases depending on age, and each of them has specifics conditioning buying behaviour. Because of these specific interests, wishes and needs which are specific to each of the life phases and make a specific segment of consumer behaviour, producers make products for each particular phase in a family life cycle.
- B- Social status-** depending on belonging to a certain social group (lower, middle, higher) which is usually connected to certain status symbols, products are aimed for a certain segment of consumers, depending on social status, buying habits and consumer power.
- C- Culture and subculture** – By using cultural inheritance, tradition and customs, beliefs, art, knowledge, low, moral and other specifics, make one society essentially different from the other. Culture is usually subject of original consumer behaviour inquiries, so marketing experts have a task to adapt products and services to various markets to meet specific requirements. Culture is very broad and complex and can be divided into subcultures which are very important for market experts, as based on ethical codex, religion, race, attitudes and beliefs of a specific consumer segment they can differ from dominant culture.
- D- Global market segmentation** – By using internet technology the world becomes a global village and thus information and communication become available to a large number of users. Examples are product brands which were successfully placed at global market as Nike shoes, Swatch watches or Polo shirts. They are only the proof of possibility and success of this kind of segmentation.

**Segmentation connected to consumption intensity** – implies consumer division based on consumption intensity (Intensive or heavy consumers, middle consumers and weak consumers).

**STRATEGY OF AIMED MARKET CHOICE** or bad consumers, based on satisfaction of needs, (consumers with heightened status symbols, innovators, conservatives, individuals and hedonists) and loyal to specific product or brand as well (“apostles”, “mercenaries”, “captives” and “terrorists”) [9, pp 129].

**2.7. Segmentation connected to product or service usage** – implies researches connected to intentions of users for buying specific brands of products for specific purpose. Example: toothpaste for purposes of fresh breath, any cavity protection, whitening, healing etc.

**2.8 Hybrid segmentation** – implies combining certain criteria to make separate segments homogenous and more adapted to certain market mix. Example: Table of six types of users who buy through internet, researched by Harris Interactive Group, connected to buying habits and motivating factors describing segments of Internet buyers (table 2).

**Table 2:** [1, pp. 70]

<p><b>NEWCOMMERS</b> – represent only 5% of population which buys through Internet, this group is the newest on the Internet, and it is a little bit older, doesn't like Internet shopping and spends least time on the net.</p> <p><b>MATERIALISTS SENSITIVE TO TIME</b> – They are 17% of all the virtual buyers, they are mostly interested in advantages and time saving, are less interested in reading product reports, comparing prices and using coupons.</p> <p><b>ON –LINE AND OFF-LINE WORLD</b> – They are 23% of all the Internet buyers, this group usually buys through Internet but prefers traditional shopping without the help of Internet, they take care of their privacy and security when buying by Internet and mostly visit shopping centres.</p> <p><b>SEGMENT OF ON-LINE BACHELORS</b> – They are 16% of population buying through Internet, they are young men, single, with high income who play games, hack programmes, use banking services and mostly buy and pay through Internet.</p> <p><b>HUNTERS – GATHERERS</b> – They are 20% of Internet buyers, age between 30 and 49, with two children, and mostly visit web places with comparing price and product analyses.</p> <p><b>BRAND LOYAL</b> – They are 19% of Internet buyers, mostly go directly to the internet page of a producer they know, are mostly satisfied with Internet shopping and spend most time on the Internet.</p>
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### 3. CONCLUSION

There is an “all – out war” on the market. It allows various strategies as the winner gets a big pray **MARKET**. Survival of a company and its final aim depend on correctly defined strategy of market segmentation, knowledge and capability of a producer and marketing experts, as well as well performed tactical tasks. **The aim is to achieve profitability with satisfying users and enabling their long term loyalty! Thus: “Don't follow cleared paths, make your own way and leave steps behind.” – Bill Gates**

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## **ИННОВАЦИОННО-ТЕХНОЛОГИЧЕСКИЙ ЦЕНТР КАК ВАЖНЕЙШИЙ ОБЪЕКТ ИНФРАСТРУКТУРНОЙ ПОДДЕРЖКИ МАЛЫХ ИННОВАЦИОННЫХ ПРЕДПРИЯТИЙ**

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***Резюме:** В статье рассмотрен положительный международный опыт в развитии научно-технического прогресса и стимулировании малого инновационного предпринимательства, играющего важнейшую роль в этом процессе. Россия, как и другие экономически развитые государства, развивается по инновационному пути. Автором проанализирован положительный опыт Белгородского государственного технологического университета им. В. Г. Шухова (Россия, г. Белгород) в формировании на своей базе объекта инфраструктурной поддержки малых инновационных предприятий – инновационно-технологического центра, что позволило обеспечить доведение конкретных научно-технических идей до коммерческого освоения и повысить эффективность кооперационной сети «наука - образование - бизнес».*

***Ключевые слова:** научно-технический прогресс, инновационно-технологический центр, малые инновационные предприятия, бизнес-инкубатор.*

За последнее десятилетие в России произошли качественные изменения в структуре национальной экономики. Переход к рыночным отношениям придал новый импульс развитию ряда экспортно-ориентированных сырьевых и добывающих отраслей промышленности, отраслей начальной стадии переработки сырья, сферы услуг. Вместе с тем, сдерживается рост количества предприятий, которые производят конкурентоспособную на мировом рынке, наукоемкую продукцию.

Международный опыт показал важную роль малого инновационного предпринимательства в развитии научно-технического прогресса. Малое инновационное предпринимательство представляет собой наиболее мобильную экономическую подсистему, способную к быстрой адаптации к среде и наиболее адекватно реагирующую на постоянно изменяющиеся потребности.

Ряд экономически развитых государств, выбравших инновационный путь развития: США, Япония, Германия и другие, сформировал определенный организационно-экономический механизм стимулирования инновационной деятельности в системе малого предпринимательства. Мировая практика сочетания мер и форм стимулирования инновационной деятельности малых предприятий разнообразна и обширна. Однако зарубежный опыт следует использовать с учетом социально-экономических, исторических и других особенностей государств.

Из оценки мировых рейтингов экономического и инновационного развития, произведенного Институтом мировой экономики и международных отношений РАН следует, что Россия имеет значительное преимущество по сравнению с большинством государств мира по численности научно-исследовательских кадров, однако этот важнейший фактор, формирование которого не могут обеспечить многие государства, оказывает в современных условиях недостаточное влияние на основы и перспективы экономического роста России и ее регионов. Так, Россия по числу ученых и инженеров занимает 3-е место в мире, в то время как США - 6-е, Франция - 9-е, Германия - 11-е, Канада - 14-е, Великобритания - 18-е, Китай - 44-е [1]. При этом, в соответствии с оценочными значениями индикаторов инновационного развития России и государств ОЭСР, доля инновационной продукции малых предприятий в объеме производства обрабатывающей промышленности в РФ составляет 0,47%, а в странах ОЭСР - 45% [2].



Как следует из приведенных данных, именно активное включение в инновационные процессы малых предприятий, осуществляющих инновационную деятельность, стимулирование малого инновационного предпринимательства позволили обеспечить прорыв в научно-технической и инновационной сфере США, Японии и другим государствам.

Благодаря комплексной поддержке частной инициативы, предпринимательства эти государства добились значительных успехов в экономическом развитии. Важным элементом такой поддержки является формирование системы государственных и региональных заказов на научно-техническую и инновационную продукцию при активном финансировании этой деятельности. Наряду с бюджетным финансированием высока роль использования венчурного инвестирования. Известно, что при финансировании десяти малых инновационных фирм, добивается успехов, как правило, одна, но сверхприбыль последней - покрывает все расходы, в том числе и на неудачные проекты. Немаловажным фактором в достижении успехов является повышение престижа предпринимателей, то есть той части инициативных людей, которые находят и развивают новое дело на базе инновационных идей, превращая идею в прибыльный товар и находя ему соответствующую нишу на рынке.

Недооценка органами управления всех уровней актуальности задачи: стимулирования деятельности малых инновационных предприятий приводит к тому, что не всегда делается правильный выбор приоритетов и инструментов стимулирования, что может способствовать кризису в научно-технической и инновационной сфере, нерациональному использованию финансовых ресурсов.

Следует отметить о важности и своевременности утверждения «Стратегии развития науки и инноваций в Российской Федерации на период до 2015 года», которой определено, что экономика России и ее регионов должна стать более динамичной, адаптивной к меняющимся внешним условиям, восприимчивой к техническому прогрессу. В указанном документе так же установлено, что одним из главных факторов реализации стратегии является: «развитие инновационной инфраструктуры, стимулирующей трансферт результатов сектора исследований и разработок в российскую и глобальную экономику, прежде всего путем стимулирования создания малых и средних технологических инновационных компаний» [2].

Накоплен положительный международный опыт в формировании механизмов стимулирования, однако применять его следует с учетом региональных особенностей. Так, современные тенденции российской экономики свидетельствуют о целесообразности следующего подхода к «стимулированию создания малых и средних технологических инновационных компаний» - формирование на базе высших учебных заведений (вузов) объектов инфраструктурной поддержки малых инновационных предприятий, которые способны обеспечить доведение конкретных научно-технических идей до коммерческого освоения и повысить эффективность кооперационной сети «наука - образование - бизнес».

Целесообразность такого подхода базируется на преимуществах малых предприятий перед крупными предприятиями:

- малые предприятия при прочих равных условиях характеризуются большей гибкостью и адаптивностью (будь то технологические изменения или экономическая среда в целом);
- оперативно реагируют на спрос потребителя, что определяет их важную роль как источника инноваций в экономике;
- в наибольшей степени нацелены на регион: потребителя, сырье, материально-технические и финансовые ресурсы;
- обеспечивают концентрацию ресурсов и их эффективное использование в доведении научно-технической идеи до коммерческого освоения, выполняя функцию «инкубатора идеи».

Так же важным является тот факт, что вузы имеют достаточный кадровый и материально-технический потенциал для предоставления «инкубируемым» малым предприятиям необходимых научно-консалтинговых и других услуг. Используя указанные преимущества, представляется целесообразным создание следующих объектов инфраструктурной поддержки на базе вузов: инновационно-технологических центров, технологических парков и других, ориентированных на внедрение инноваций и их рыночное развитие.

В этой связи представляет интерес положительный опыт Белгородского государственного университета им. В. Г. Шухова (БГТУ им. В. Г. Шухова) в создании инновационно-технологического центра (ИТЦ), одной из главных функций которого является поддержка малых инновационных предприятий, созданных на базе университета.

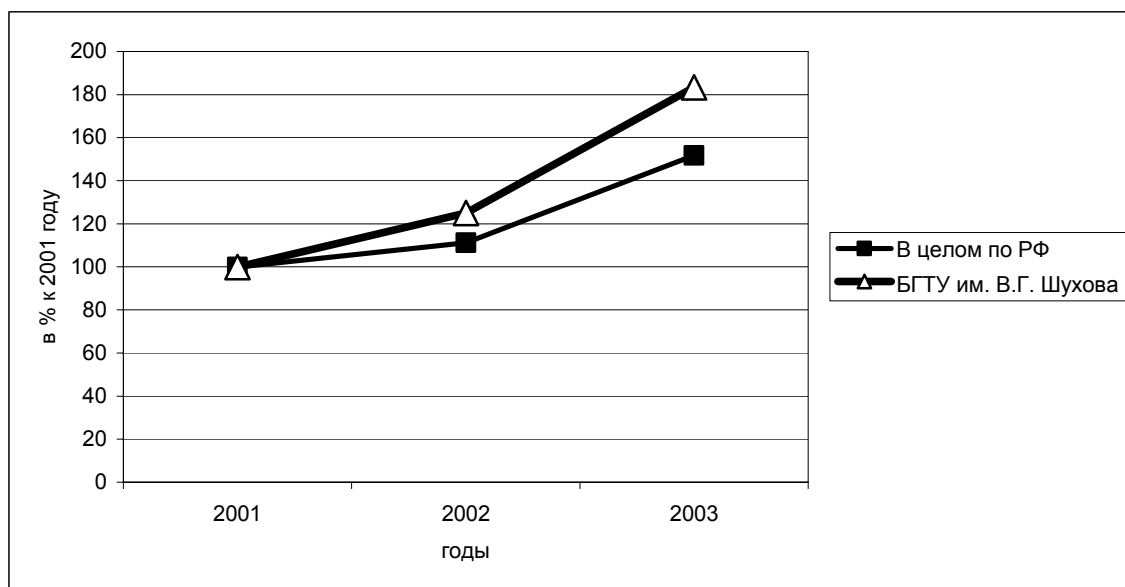
Создание ИТЦ в 2004 году обусловило следующее явление в экономике региона: активный рост предложений ученых университета в создании научно-технической продукции на фоне серьезных проблем в области внедрения научно-исследовательских разработок в производство и их коммерциализации.

Так, в 2003 году в сравнении с 2001 годом прирост полученных патентов университетом составил 83,3%, притом, что по России - 51,8% (смотри рисунок). В тоже время, если в 2001 году использовали в своем производстве передовые технологии 34 предприятия Белгородской области, то в 2003 году - 19, что

указывает на снижение спроса и наличие проблем в области внедрения отечественных научно-исследовательских разработок в производство.

Проведенный нами анализ показал, что менеджеры предприятий в современных условиях не готовы вкладывать средства в особо рискованные научно-технические проекты на стадии научно-исследовательских и опытно-конструкторских работ. Интерес у инвесторов возникает, как правило, если в результате научно-исследовательских работ получен опытный образец или опытная партия нового материала или изделия.

Также результаты анализа данных госстатистики свидетельствуют о проблемах на предприятиях в области менеджмента, финансирования, кадрах, что требует поддержки инициативы предприятий по внедрению результатов научно-технической и инновационной деятельности в различные сферы производства, а также объединения усилий заинтересованных организаций в повышении эффективности этой поддержки.



**Рис.1:** Динамика роста выданных патентов заявителям в целом по РФ и БГТУ им. В.Г.Шухова, в % к 2001 г.

**Так, следует выделить следующие проблемы, препятствующие взаимодействию науки и производства:**

- несовершенство законодательной и нормативно правовой базы;
- отсутствие на предприятиях служб маркетинга в области научно-технических разработок;
- проблемы финансирования в части доведения научно-технических разработок до внедрения;
- отсутствие на предприятиях специалистов высокой квалификации в таких областях, как управление, охрана и защита интеллектуальной собственности и др.

**Цель создания ИТЦ в БГТУ им. В.Г. Шухова:**

- обеспечение помощи ученым в доведении научно-исследовательских разработок до внедрения;
- вовлечение в инновационную деятельность студентов, аспирантов, докторантов и научных работников;
- поддержка малых инновационных предприятий, обеспечивающих доведение научной идеи до коммерческого освоения;
- предоставление ученым и малым инновационным предприятиям научно-консалтинговых услуг.

**ИТЦ оказывает следующие услуги для научных работников, студентов, аспирантов, докторантов университета, сторонних организаций и населения:**

**Информационные услуги:**

- ведение базы данных научно-технических разработок и инновационных предложений вузов, предприятий Белгородской области и других регионов России по отраслям промышленности;
- обеспечение нормативно-правовой документацией;
- маркетинговые исследования в области промышленности строительных материалов и строительства;
- изучение и прогнозирование внутреннего и внешнего рынков интеллектуальной собственности, сырья

- и продукции;
- информирование об источниках финансирования и кредитования инновационных проектов;
- организация и проведение конференций, круглых столов, семинаров и презентаций.

#### **Оценка интеллектуальной собственности и бизнеса;**

##### **Консалтинговые услуги:**

- консультационные услуги по вопросам бухгалтерского учета, отчетности и налогообложения;
- налоговое планирование, проведение экономического и финансового анализа;
- разработка стратегии развития бизнеса в научно-технической сфере.

##### **Юридические услуги:**

- подбор оптимальной организационно-правовой формы регистрации бизнеса с учетом налогообложения, льгот, целесообразности, перспективы;
- консультирование по подготовке документов по вопросам регистрации организации;
- юридические экспертизы, консультации;
- юридическое сопровождение сделок.

Для реализации концепции вовлечения в инновационную деятельность студентов, аспирантов, докторантов и научных работников университета сотрудниками ИТЦ в 2007 году подготовлен Проект на конкурс Федерального агентства по образованию на финансирование реконструкции площадей под создание инновационного бизнес-инкубатора в БГТУ им. В. Г. Шухова, который успешно прошел конкурсный отбор из числа российских вузов.

Сегодня в ИТЦ БГТУ им. В. Г. Шухова реализуется три проекта, которые в комплексе позволяют успешно выполнять поставленные цели и задачи:

#### **1. Инновационный бизнес-инкубатор.** Основные цели бизнес-инкубатора:

- увеличение числа малых предприятий в сфере наукоемких технологий, созданных с участием студентов, аспирантов и научных работников на базе БГТУ им. В.Г. Шухова и повышение их устойчивости;
- активизация инновационной деятельности студентов, аспирантов и научных работников на базе БГТУ им. В.Г. Шухова;
- облегчение доступа малых предприятий к материально-техническим и другим ресурсам в сфере наукоемких технологий;
- формирование стандартов профессионального бизнеса среди субъектов малого предпринимательства.

Приоритетными организациями для оказания всесторонней поддержки в бизнес-инкубаторе на базе БГТУ им. В.Г. Шухова являются начинающие субъекты малого предпринимательства, занятые в сфере наукоемких технологий в области строительства и строительных материалов, энергетике, электронике и других направлений.

Размещаясь в инновационном бизнес-инкубаторе, малые предприятия имеют возможность арендовать площади на льготных условиях: в 1-й год - арендные платежи производятся по ставке - 0 % от рыночной стоимости (то есть без оплаты), во второй год аренды - 60 % от рыночной стоимости, в третий год аренды - уплачивают по рыночной стоимости. Предприятия находятся в инновационном бизнес-инкубаторе 3 года и пользуются научно-консалтинговыми услугами на льготных условиях:

- почтово-секретарскими;
- консультационными услугами по вопросам налогообложения и бухгалтерского учета;
- правовой охраны и защиты интеллектуальной собственности и другими.

По завершению 3-х лет - окрепшие малые предприятия покидают инновационный бизнес-инкубатор.

Следует отметить, что инновационный бизнес инкубатор БГТУ им. В. Г.Шухова - это единственный в России бизнес-инкубатор, поддерживающий малые инновационные предприятия, в составе учредителей которых только студенты, аспиранты, докторанты и ученые университета.

Сегодня в инновационном бизнес-инкубаторе размещены первые 10 малых инновационных предприятий, в составе учредителей которых студенты, аспиранты, докторанты и научные работники университета: ООО «Международный центр подготовки и повышения квалификации кадров», осуществляющее образовательные международные программы и внедряющее инновации в образовательные процессы; ООО «Фабрика информационных технологий», производящее новые продукты в области вычислительной техники и информационных технологий, ООО «СИГМА», осуществляющее деятельность в сфере робототехники и другие.

**2. Бизнес-центр** предоставляет для малых предприятий научно-технической и инновационной сферы научно-консалтинговые, информационные, бухгалтерские и юридические услуги; организует консультационно-методические семинары, посвященные решению актуальных проблем предпринимателей в области повышения инновационной активности предприятий, финансирования и налогообложения бизнеса.

Сегодня пользователями услуг бизнес-центра также являются малые инновационные предприятия Белгородской области и других регионов России и зарубежных государств.

**3. Школа инновационного предпринимательства.** Целью проекта является получение практических навыков студентами, аспирантами, докторантами и научными работниками университета в области организации и ведения малого и среднего бизнеса, охраны и защиты интеллектуальной собственности, а так же поддержка их предпринимательской инициативы.

Для достижения поставленной цели решаются следующие задачи:

- проведение аналитической работы для выявления и отбора потенциальных участников проекта;
- обучение основам создания и развития малых инновационных предприятий;
- содействие в создании малого инновационного бизнеса;
- создание условий для коммерциализации научно-технических и инновационных идей.

Учитывая унифицированную материально-техническую базу университета, высокую квалификацию специалистов, в том числе в области управления и защиты интеллектуальной собственности, пользоваться услугами центра могут другие вузы, научно-исследовательские институты, предприятия и население Белгородской области и других регионов.

Для повышения эффективности работы БГТУ им. В. Г. Шухова объединил на базе ИТЦ ученых, межрегиональную общественную организацию ученых, кредитное учреждение и представителей администрации Белгородской области в поддержке инновационной деятельности Белгородской области. С этой целью подписано Соглашение о сотрудничестве БГТУ им. В. Г. Шухова, Белгородского отделения № 8592 Сбербанка России, Центра инвестиционного роста Белгородской области и Межрегиональной общественной организации «Ассоциация ученых и специалистов в области строительного материаловедения». В этом Соглашении определен механизм взаимодействия сторон в реализации инновационной поддержки и кредитовании научно-технических и инновационных проектов университета, а также малых предприятий и других пользователей услуг ИТЦ.

В частности, Белгородское отделение № 8592 Сбербанка России приняло на себя обязательства по содействию в кредитовании:

- малых предприятий научно-технической сферы, созданных с участием университета и пользователей услуг ИТЦ под конкретные научно-технические идеи;
- предприятий Белгородской области и других регионов России в освоении производства наукоемкой продукции и технологий.

Впервые в Белгородской области с целью объединения усилий в поиске инвестиций, в том числе российских и зарубежных венчурных фондов, а также формированию совместной деятельности, обмену информацией и положительным опытом внедрения результатов научно-технической и инновационной деятельности в реальный сектор экономики ИТЦ разработано и заключено соглашение между университетом и Фондом содействия развитию инновационной деятельности высшей школы.

В соглашении определен эффективный механизм сотрудничества и стратегического партнерства между ИТЦ университета и Фондом. ИТЦ оказана поддержка ученым в анализе научно-технической информации и охраняемых документов, а также формировании инвестиционных заявок в форме необходимой для инвесторов и размещении их на сайте Сети трансфера технологий.

ИТЦ развивает сотрудничество с Белгородским областным фондом поддержки малого предпринимательства, Центром инвестиционного роста Белгородской области и другими организациями. Примером успешного сотрудничества может служить комплекс совместных круглых столов - совещаний между учеными университета и бизнесменами, посвященный решению актуальных проблем во взаимодействии представителей науки и бизнеса.

В БГТУ им. В. Г. Шухова разрабатываются и внедряются новые формы научно-инновационной деятельности. Примером может служить разработка и успешная реализация ИТЦ БГТУ им. В.Г. Шухова механизма развития внешнеэкономической деятельности инновационных предприятий - пользователей услуг ИТЦ. С этой целью ИТЦ явился организатором международных выставок, круглых столов, конференций и семинаров на Украине, в Молдове и других государствах СНГ на темы развития международного сотрудничества в области инноваций, поддержки научно-технического и инновационного предпринимательства.

Таким образом, ИТЦ БГТУ им. В.Г. Шухова стал важнейшим объектом инфраструктуры поддержки инновационной деятельности в Белгородской области и России.

По нашему мнению, положительный опыт ИТЦ БГТУ им. В.Г. Шухова, а так же механизм интеграции на его базе кредитных учреждений, администрации и общественных организаций в поддержке инновационной деятельности в системе малого предпринимательства может быть полезен другим регионам России, а также зарубежным государствам.

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## PROJECT FINANCING MODEL OF GENERATING TOURISM MATERIAL BASIS

**Goran Simić**

Doboj, BOSNIA AND HERZEGOVINA

***Summary:** Little is known regarding tourism material basis and possible modalities of the efficient and effective financing. Numerous positive effects of tourism are known both on the global-planetary and on the national levels of economies. It is noted that finance are unavoidable either from the aspect of exploitation or from the aspect of further development of tourism. The purpose of this paper is to point out to the as efficient and effective as possible ways of financing the material basis of tourism.*

***Key words:** financing, tourism, material basis, models.*

### 1. MATERIAL BASIS PROJECT FINANCING

The project financing is the financing implying that the resources invested into a certain project are returned or paid off from the incomes of the same project in the future. Therefore, the financier or the creditor of a certain infra or suprastructured facility or system counts on sure return of the resources from the future incomes from the infrastructure facility or system, whereas viewing the property as a guarantee of security for collection of the given loan. Since this financing requires structuring of the property of the project and debt so that the inflow of money out of the accomplished incomes from the project would be satisfactory-expected and service the debt, this way of financing is known as the structural financing. The project financing can be defined as financing from limited sources, large objects of material basis, where creditors primarily observe the object's cash flow and incomes as the source of assets for the loan repayment and the property as the guarantee for it, whereas they pay considerably less attention to general creditworthiness of the debtor [9]. At financing the larger infra and suprastructured projects of material basis, from the noted financing models for this issue, the project financing, concessions, BOT model and joint investments/ventures can be singled out. Since it has been satisfactorily discussed earlier on the concessions, the BOT system of financing and joint ventures and their application in the process of financing the parts of material basis, this paper discusses the role and importance of the project financing of material basis. The project financing has a goal of securing the financing of a certain project with less engagement of own resources by the financing holder or concrete project's promoter, with less influence on its balance and creditworthiness, whereat this financing is sometimes called the off-balance financing. One of the more important advantages of the project financing is that the project development proponent does not appear as the direct debtor, safeguarding in that way its creditworthiness and possibility of borrowing for other purposes. The project financing enables highly greater benefits than the ones the individual proponents of development or sponsors would directly obtain by themselves, because the project and not the development proponent or the project's sponsor is credited [9, pg. 186]. The significance of the project financing is important to the countries of weak creditworthiness, making them difficult to engage necessary resources, and thus by the system of the project financing they can secure the resources for attractive and commercially profitable projects with the acceptable risk and profit. The application of project financing in the process of generating material basis is welcomed for the reason that the real debtor is the project itself or the facility being constructed, as well as the possibilities of establishing a favourable relation between the project's property as the guarantee for the resources providers or for the investors and the credit indebtedness. The projects financed according to this system are mostly development priorities, various infrastructured systems, which on the basis of various benefits and relieves (tax relief, preferential input costs) enable the financiers profits highly greater than the profits of

classical credit indebtedness. The most frequent positive premises of the project financing relevant to the development proponent or the project sponsor are the following [3]:

- securing resources-loans under favourable conditions;
- securing minimal engagement of one's own resources;
- maximizing the indebtedness with fixed interest rate;
- adjusting the obligations of loan repayment with the cash flow;
- adjusting the obligations of loan repayment in foreign exchange with the incomes in those exchanges;
- minimizing the financing costs
- realization of the planned profit rate;
- engagement-attracting several investors both private and public;
- realization of the necessary level of flexibility in the financing, (Emerson, 1983).

At all forms of financing and at the project financing as well, there are certain risks so that on the management over them depends the project's success, especially if there are several participants in the project [6]. The insurance at the competent institutions and the transfer of risk through appropriate financial instruments are two basic ways of protection from the risk in the project financing. Precisely the engagement of certain participants in the project financing is many times conditioned by the possibility of securing the investments from commercial and non-commercial risks at the agencies for insurance of export credits and business. The securing of businesses and credits at the authorized agencies is of special significance if it is about large projects in countries with great risks. When it is about the risk transfer by the financial instruments there are financial derivatives present (derived securities): *options, futures, swap and forwards*. **Futures** are highly standardized forward contracts on buying and selling of certain assets, according to which the delivery and payment is effected in the future. Due to the possibility of creation on some other basic assets, foreign currency other securities, interest rates and similar, they are treated as the derived securities. They are of a great significance to risk management and solving the problems in the process of financing the objects of material basis. There exist the goods and financial futures. In the process of financing of generating material basis both are important, whereas the financial futures are of a special significance. **Options** give their owner the right to buy or sell certain assets at the price agreed (fixed) in advance within a certain period of time. It is interesting that the relations between the buyer and the seller are regulated by the option agreement which, in its essence, is an incomplete agreement, because the options' buyer has a certain right (to buy or sell the specific assets) but not the obligation to do so, wherein lies the main difference between the options and futures. At the futures, the entities of material basis financing have to unconditionally fulfill their obligations, whereas at the options, the buyer does not need to buy or sell the assets. **Forwards** and swap contracts are non-standardized agreements by means of which the partners participants in the financing of facilities and systems of material basis mutually exchange interest rates and exchange obligations. **Swap** arrangements enable debt replacement for debt or their combinations, whereas depending on what they are concretely related to, we mostly have the debt swap (related to a debt), currency swap (related to currency obligations), interest swap (related to interests) and goods swap (related to equipment, various goods). It is interesting that at the project financing the organization's operations and total performing operations are entrusted to a certain company or the project company is founded especially for the purposes, even though the operations can be entrusted to some institution as well. The project company is usually formed by the project's investors and at the very beginning of the project performance, using the investor's capital. All operations important for the project, such as borrowing the resources for the project financing, entering into the contractual arrangements with state institutions of domestic or foreign contractors, equipment and raw material suppliers and the like, are performed by the project company. The project company is also the proponent of various benefits by the state that are approved for the concrete project, such as tax, customs and other relieves. For founding of the project company due to the adequate control the host state is interested as well (in which the project is realized). The simple project management, selection of contractors, equipment suppliers, surveillance and control of contracted works, the receipt of the works-projects is usually performed by a selected team of experts (project management) and it can also be performed by a certain legal entity. Through the project team the financier or financiers realize the complete control over the project, although the financier can entrust all the works to one contractor on the basis of *the agreement on construction*. **By the agreement on construction** the constructor as the business bearer obligates itself that the project will be realized as planned, i.e. that he will build certain facilities in accordance with the given project. With regards to the complexity of the project financing, the presence of various legislative forms, numerous contracts and pre-agreements, analysis of numerous financial offers, conclusion of the agreement, using the resources, etc.; the financiers of large infra and suprastructural systems or facilities require financial advisers [9]. As the financial advisers in the project financing appear various consulting firms, companies, insurance companies, then legal advisers, etc.

## 2. PROJECT FINANCING FUNDS SOURCES

There are different sources of funds for project financing in the world. However, in this paper the emphasis is put on some of them being favourable for financing the tourism material basis generation. Pooling of funds from several sources for financing a certain project, the so-called co-financing of development bank is more and more practiced in the business policy. The funds of credits for export are related to the resources approved by the equipment suppliers and contractor from their own resources, the so-called supplier's credits. However, the equipment suppliers and contractors besides from their own resources, can allocate the credits from the resources approved to them on the credit basis by the national agencies for export crediting.

The resources on the basis of export credits can be provided directly at the agency for export crediting- the resources for purchasing the equipment and services in the creditor's country. To these foreign credits, of special significance is the credit line for a certain project. By the project credit line or credit arrangement, larger number of supplies of capital equipment, facilities and material for the specific project are mostly financed.

The export credits are favourable for financing the tourism material basis for several reasons: They are granted at longer deadlines, the grace period is very long, with fixed favourable interests and the repayment starts upon completion of the project, i.e. when the built facility starts functioning and is making profit.

Some of the noted agencies in the world for export crediting are: Export-import Bank of United States from the USA; Export Development Corporation from Canada; Ausfuhrkredit AG and Kreditanstalt fur Wiederaufbau from FR Germany and The Export-Import Bank of Japan from Japan. A very important source of the project financing funds on the global level is commercial banks resources. The commercial banks' resources are allocated under market conditions and are often the creator of the total crediting arrangement for a certain project. The worlds noted banks per granting the resources for the project financing are: Citigroup Inc, USD; West LB, USD; Dresdner Bank, USD; Chase Manhattan Bank and Societe Generale Bank of America [6].

At the smaller projects and the projects of local importance, the domestic banks and financial organizations pool the resources with the foreign banks into a consortium for the project financing. The presence of larger banks' resources provides greater security to other potential minor co-financiers. Larger amounts of resources of the commercial banks for the project financing are engaged through syndicated credits. These credits are in fact, the credit arrangements of several commercial banks where each bank provides a part of the resources for the loan out of the own resources, the conditions are identical for all and the resources can be in different currencies.

Direct investment funds as the sources of funds for the material basis project financing in new destinations grant medium-term and long-term loans. In these funds the resources of private and institutional investors, large transnational corporations, multinational and regional financial organizations participate. Ranked as the most noted in the world is "American International Group Infrastructural Fund", whereas its greater participants are the American International Group AIG, Beshetel Enterprises and the Singapore government. The interesting information is that in 1994 from this fund 1,2 billions of dollars has been provided for the financing of infrastructural projects [9].

Leasing as the mean of providing resources for the project financing enables provision of resources for medium-term and long-term investments and with the fixed interest and it is often used for provision of expensive equipment and intermediate goods. Unlike the credits where certain advance from 10 to 20% is required, the leasing enables the project financier the provision of 100% financing resources.

One of the ways of the project financing is on the basis of finished products, meaning that the future users of infra and suprastructural systems and facilities in the tourist destination in advance pay for them, also using the benefits with regards to the costs, the security of realization, deadlines, etc. The advance purchasing, would especially be interesting at the material basis generation financing in spa destinations where it is about the natural resources exploitation.

Further connected to the material basis financing in new destinations, especially when it is about the accommodation facilities, specifically interesting are the take-off agreements by which the project financiers accept the long-term obligation of using the certain services at the cost determined in advance, and then, very important are the contracts based on the principle take it or pay, (take-or-pay contract) where the user of services obligates itself to periodically pays the agreed amount regardless of whether he will be using the services or not.

The contractors appear as the project financing participants if they employ their capacities for a longer period and if they estimate that the project is profitable enough. Their participation in the project financing happens through accepting the fixed prices for their works, then through recovery for the rendered services they compensate by using the project services upon the project completion (e.g. Hotels, blocks of apartments, ski lifts, etc). As a possible way of the project financing in new tourist destinations, the short-term trade commercial financing (trade financing) can be used. In this way, the resources are provided from the suppliers of the construction material, equipment and other elements necessary for the facility construction. Also important way of providing the project financing resources is form public sources being the budget donations, aid to the undeveloped areas, then in the form of presents from the humanitarian funds. In these cases, as the special form



of aid and specific financing by the state is of special significance to certain infrastructural systems and facilities bearing with it the benefits of the type free from customs, tax relief and stimulations and the like.

### **3. CONCLUSION**

From all the possible modalities of tourism material basis financing or the development projects in tourism in general, the leading role should be reserved for the project financing. The same modality justifies the prime position by the series of advantages expressed in this paper, e.g. the funds recovery or the loan repayment form the future profit from the project itself. In any case, the tourist bank both in Serbia and in the world generally represents a magnificent new institutional and procedural solution of the set of crucial issues of the tourism material basis financing by itself.

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## INTELLIGENCE CONCEPT- INFORMATION BASIS OF KNOWLEDGE MANAGEMENT

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**Summary:** English expression *Intelligence* has a much wider meaning from the one used in the Serbian language. In this case it is a system for gathering and analysis of information. One of the moments when closer attention was paid, in theory and practice, to the mentioned, was when the Secretary of OECD named a group of experts<sup>1</sup> to research the role of scientific and information and in many other sectors. As the leading researchers in this field<sup>2</sup> imply, the focal point of OECD interests, which was then in the phase of defining subjects and information politics and appropriate organizational structures, was on mere purpose of information politics. Thus, information politics is directed to improve the development of mindful decisions, based on previous information. On such basis attitude which excelled was « that information technology is as much important for managing politics as politics is for information technology ». So, indeed « the temple of knowledge is a multiform building, just as the people walking in it are »<sup>3</sup>, and with the growing role of information management technologies, especially communication and computers (telematics=information technology+telecommunications), development of technologies and information infrastructure is accentuated more, including the set of information that this technology can enable access to.

**Key words:** Intelligence, knowledge, information technology, massive disconnect.

### 1. INTRODUCTION

Almost all analysts of social development agree that the world is in the middle of information revolution which, like industrial revolution, has far reaching consequences on general social development. However, information revolution, according to human business involved, speed of influence on human population regardless of age, greatly exceeds all previous social and business changes in the development of mankind. That is why it is necessary to understand the information ambient, because the agreement, in science and practice, has already been achieved that information system of infrastructures of state society organization, organization of companies, association organization and all other kinds of association, no matter whether it is or isn't supported by computer technology. Computer technology is the one that greatly improves the quality of information system. So, "through the world, it is accepted that telecommunication, computers and mass media are not just industry sectors with great growth, but the engine of development and increase of other industry sectors as well. Many countries, because of that, take initiatives to improve national information structures and in that way secure all potential benefits of new technologies for their citizens." (Project task for the study of strategic development of information technology in former Yugoslavia, prim. a.). By developing national information infrastructure, the state ensures involvement in global (world) information infrastructure ( and global information society), which in business and providing services greatly decreases limiting influence of time and space, and in that way contributes to conducting necessary reforms and changing management structure and competitive participation in the labour and service market. In the document the strategy of information technology development (November 1997), as a vision of development of Yugoslavia as information society, it was defined

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<sup>1</sup> Led by dr **Pierre Piganiolom**, and their report was printed in Paris under the name *Information for a Changing Society*, while a short review can be found in **Edward L. Brady and Lewis M. Branscomb**: *Information for a Changing Society*, Science, vol.175, No.4025 March

<sup>2</sup> **Lewis, M. Branscomb** (vice-president and leading researcher in IBM) in preface of the edition *Intelligence for Economic Development - An Inquiry into the Role of the Knowledge Industry*, Berg Publishers Ltd., Oxford/Hamburg/New York, 1987.

<sup>3</sup> **Einstein, Albert** (speech in Physicists Society in Berlin on the occasion of Max Planck's 60<sup>th</sup> birthday, 1918)

that. "By creating National Information Infrastructure (NII) and strategic information systems (the authorities, economies, bans, traffic, health service...) new conditions for complete economic prosperity of a country are created." Furthermore, with the document "Strategy of information society development in Republic of Serbia" (Belgrade, July, 2006) the development on three levels was anticipated:

1. On the level of strategy reform of public administration in republic of Serbia
2. On the level of infrastructure development trends and
3. On the level of IT development and other sectors.

## 2. INFORMATION CHARACTERISTICS FOR DIFFERENT LEVELS OF MANAGEMENT AND DECISION MAKING

It is important to emphasize understanding and modern concept changes, such as *renewal* (rejuvenating). This phase of organization transformation includes human resources and their renewal and rejuvenating. At the same time, this phase is the most important in transformation of organization. It represents three basic points:

1. Creating a system of rewarding
2. Building individual learning
3. Organization development

Every organization and organizational structure has to be ready for changes and adaptation that future brings. It is said "where people grow, organizations and profit grow". His concept includes the following tasks:

- designing organization
- using teams as basis for connecting members and actuators of organizational adaptation
- Reaching global learning
- incorporating, that is creating corporate spirit

## 3. MERGING TECHNOLOGIES (CONVERGENCE OF TECHNOLOGIES)

In the environment there is a significant tendency to merge technologies (*Convergence of technologies*) as a trend of transition from XX to XXI century: Computer, communication, knowledge technologies and other, with their relations with scientific management and methods of decision making. Although, on the world scene, parameter boom in the sphere of mobile telephony is predominant, for which people say that on every 10% of growth of users number –BDP grows 0,6%, the following facts related to information technology shouldn't be neglected:

- In the year of 2012 traffic in mobile and fixed networks will grow ten times, but multimedia, originally and conceptually tied to IT, will begin a new era in telecommunications- not the other way around. That new era sets additional demands in front of manufacturers and operators, based on the fact that manufacturers will have to get to know the customers better, because they are a critical factor and IT competence is essential since it paves the way for multimedia services.
- Network complexity is increased by mentioned convergency, which puts knowledge, related to system integration forward.

Also, there are significant differences within a numerous group that IT staff call "*users*". These are:

- workers with knowledge (*Knowledge Workers*) who create new information and new knowledge and
- workers with data (*Data Workers*) who only use information, manage it and distribute it

So, the key factor for involving users in IT function development and the level of their general and information education and qualification, is attaining a minimum of users involvement in the development of corporate IT and its ability to define its own information demands in accordance with business asks and competences. Information demands or information needs that users send to the system are numerous and according to their characters different and depend on the following factors:


- state, development, organization of business and information system,
- level of management, that is level of decision making,
- understanding the real system and problems related to information demands,
- users' abilities to specify information demand and
- knowledge and abilities of information experts to systematize, structure and evaluate information demand.

However, identification of information demands in business systems is, without doubt, very complex, weakly structured and methodologically difficult task which demands speciality, motivation and significant period of users participation. In its realization users and ICT experts have to participate. According to the final goals of business system, and that means managing and decision making, different types of information and information with different systematic context are needed depending on the decision making phase, in a sense of preparation

phase and phase of decision making. The greatest scale of information demands shows in the phase of preparation for decision making. Differences are existing and according to the nature of management problems and the type of decisions which are made on certain levels of management and decision making. It is essential to understand the differences and important characteristics of information for different levels of management and decision making, as it is presented, on the basis of theoretical foundation, in the figure 1 and 2.

CRITERION FOR INFORMATION CLASSIFICATION	LEVEL OF MANAGEMENT AND DECISION MAKING		
	OPERATIVE	TACTICAL	STRATEGIC
POSSIBILITY OF DEFINING OUTPUT	POSSIBLE IN ADVANCE	PARTIALLY POSSIBLE	"AD HOC" DEMANDS
STRUCTURIZATION	MAINLY STRUCTURIZATION	PARTIAL STRUCTURIZATION	LACK OF STRUCTURIZATION
SOURCE OF INFORMATION	INTERNAL	INTERNAL/EXTERNAL	EXTERNAL
TIME ORIENTATION	PRESENT AND PAST	PRESENT	FUTURE
ACCURACY AND RELIABILITY	BIG	MEDIUM	SMALL

**Figure 1:** Information characteristics for different levels of management and decision making

STRATEGY	METHODS	LEVEL OF UNCERTAINTY
QUESTIONING THE USERS	CLOSED QUESTIONNAIRE	<div>SMALL</div>  <div>BIG</div>
	OPEN QUESTIONNAIRE	
	GROUP DEBATE(BRAINSTORMING)	
ANALYSIS OF EXISTING INFORMATION SYSTEM	ANALYSIS OF DATA IN EXISTING SYSTEM	
	IN OBSERVED ORGANIZATION	
	IN OTHER SIMILAR ORGANIZATION	
	IN STANDARD SOLUTION OR PACKAGE	
ANALYSIS OF OBJECTIVE SYSTEM	NORMATIVE ANALYSIS(BIAIT)	
	CRITICAL SUCCESS FACTORS(SCF)	
	PROCESS ANALYSIS(BSP)	
	DECISION ANALYSIS	
	SOCIAL-TECHNOLOGICAL ANALYSIS	
EVOLUTIONARY APPROACH	METHODS OF PILOT IMPLEMENTATION	
	PROTOTYPE DEVELOPMENT, INITIAL IMPLEMENTATION OF PROTOTYPE AND AND EVOLUTIONARY DEVELOPMENT	

**Figure 2:** Strategies and methods for identification of subjects' information demands

Based on the analysis of the presented figures, especially the second one, it is necessary to think through about the assumed relationship between information characteristics for different levels of management and decision making, and especially the complexity of information demands and factors which determine them as a starting point for defining new strategies and methods, which are used for their identification, so existing are:

- *Questioning users strategy*

- *Strategy of specification of information needs based on the analysis of the existing information system*, which is applied in stable organizations with standard tasks and operations and well defined processes of decision making.
- *Objective system analysis*, which includes modeling of activities and courses, questioning management tasks and research of information needs within, gives good results in the cases of middle and high incertitude. The usage of this strategy is enabled by using various methods, such as BIAIT, SCF, ADS, IAC, etc.
- *Evolutionary approach strategy*

#### 4. INTELLIGENCE AND PROBLEMS OF DISCONNECTION IN COMPANIES

Beginning mainly from global change in “time of greater and different management challenges” and “compressing space phenomenon” [11], it is clear that changing technologies becomes one of the basic premises, valid for management challenges in the nineties of this century and in the close future. Apologizing attitude towards assumed “haste” in the life of organization [11] at the beginning of this century, it is evident that new technologies, as carriers of changes and within the changes – information technologies, become so called “*no-joke*” factor. It should be mentioned that information technology is the technology without mystification, at least when the results are concerned, and it really shows that “the proof is in the achievement”. The level of information system implementation in every organization, as their “bloodstreams”, enables clear VISION realization, that is the way in which every organization is able to fulfill its *credo*. However, these technologies bring danger in the sense that there can be misunderstanding and acceleration of the misunderstanding within whole management. Basic field of misunderstanding is on the level of top- management towards, conditionally speaking, “technologies”, seeing them as staff in the organization that only deals with questions related to new technologies and their usage. The way Charles B. Wang, one of the modern technology gurus, sees the solution for bridging this gap (*executive-vs. -technologist gap*), and what famous Peter Drucker recommends on this matter, we wish to present in this chapter. Just to remind you, this gap is dominant for processes of all-inclusive changes – “*kazein*” changes which are not a problem-but engagement that the changes require is [10]. Beside that, basis apostrophe of this “gap” offers a synthetic answer to the question if it is really true that “only paranoiacs survive” (Andy Grove, from Intel company who represent a leader in microcomputers processor reproduction). There is a basic misunderstanding between top-managers and techno-managers (*senior executives and technologists*), Charles B. Wang, CEO of company Computer Associates International, Inc. explains the basis of his belief. The company was built by the author himself, from the beginning, as he says from “*scratch*” to 2.1 billion dollars giant, mostly paying attention that this problem is solved in every moment. Based as a part of the whole series of very successful texts presented in particular camps for management and technology education in America (the most successful camp is “*The CEO in a Wired World*” this book emphasizes the basic postulates of management which can be seen as the basis for overcoming so called *executive- technologist gap*). The point that Wang emphasizes is that: The basis of top management is not understanding technologies, but bringing it to function of creating a concrete “business”. The results of the gap the author reveals based on the existence of four levels which can lead to the situation of extreme frustration and breaking point of every organization:

1. The race for technological resources
2. Problem of time compression (Time compression)
3. Decentralization and
4. Revival of small organization groups usage for solving main problems (Downsizing)

Beside this, basic gap- fundamental misunderstanding (*Disconnect*) between corporative management and “techno-managers”, this author sees as “acute” state caused by differences in education, tradition and temper. Although reasons, besides those mentioned can be different, there is no doubt about its eventual “contribution”- gap can lead to catastrophic mistakes in choosing technologies and implementation of company’s strategy, which will, every year, bring hundreds and thousands of dollars, until already mentioned breaking point. So, the author emphasizes that only uninformed can find the relationship between one president of a company and his regional manager<sup>4</sup> strange. There is no doubt that both sides, between this problem occurs, need more than mutual work, both sides should receive help in learning “vocabulary” they use, just like there is obvious need for each side to evaluate their contributions separately, its own contribution the company evaluate according to contribution to reconcile differences by setting preconditions for enabling free growth and development of the company. Approach wish Wang describes in the way that once CEO had fallen into a ten feet hole cannot use a

<sup>4</sup> During 1950s IBM was one of the best companies in the world, thanks to, above all, the visions of legendary president of the company **Thomas J. Watson**. Having heard about a mistake worth millions (dollars- emphasized M.S.) made by one of his managers, Watson called “the guilty one” and spent a lot of time explaining him the basis of his mistake. When he finally finished, “the guilty one”, understanding the problem, asked contritely:

“I understand, when do you want me to hand in my resignation?” -“Resignation?” asked amazed Watson, “Hell no, I just spent more than a million on your education!”

six feet rope to get out which was offered by his CIO, just as CIO's astonishment isn't appropriate – "What does this one want from me, I went half way?", which shows that these people have to work together, putting their visions into one. Author emphasize that this is the only way to make permanent and top quality partnership between business managers and technical managers, which leads toward transformation of organization into a profitable centre bringing technology and business into crystal clear synergetic position that is permanent.

Note (posted by M.S.): The use of CEO and CIO abbreviation is a characteristic in treating managers from the US speaking areas, so that they represent:

- CEO (chief executive officer) who is concentrated on development and channeling strategies of organizational structure- first manager of a company.
- (CIO) (chief information officer) a top expert (ex corporate specialist-CDPS- corporate data processing specialist) for electronic data processing. However, it is necessary to bear in mind that because of technology development, this expert gets more specific and wider responsibility.

From computer literacy to information technology literacy- in this way Peter Drucker tries to explain closer the problems. Drucker as manager theory eminence, with his distinguishing style, accents the managers' (CEO) problems of attitudes towards technology by emphasizing one interesting historical example:

- First managers' conference, which was, according to our knowledge, held in 1882 by German post office and was called and had the topic "How not to be afraid of a telephone". What is particularly interesting is that only current CEOs were invited and that NO ONE SHOWED in the conference. Guests were offended. All top managers believed that they have nothing to say or hear on the matter, because a telephone is a device which only their staff should use.

Contemplating further on the matter, Drucker emphasizes that he also came to the same idea while working with CEO IBM, Tom J. Watson. Main conference theme for CEOs would be "computer literacy". However, as Drucker says in that moment they were in the same position as the organizers from Germany on 1882. -Nobody would show up because it is too mysterious for them. His final position Drucker presented in the way that new technologies particularly influence the CEO, because it is impossible to talk about them several years (20) ahead, as it is pointless to talk about them several years (20) later. This sentence represents his unique position on this matter which he emphasized even when before mentioned camp "*The CEO in a Wired World*" was concerned. (Twenty years ago, a conference called "*The CEO in a Wired World*" would not have been possible. Twenty years from now it will not be necessary. Peter Drucker, Business philosopher and author). In the end, Drucker accents that times are changing and that if he told his grand son that he was afraid of a telephone he wouldn't believe him, but what can be said about his grandfather who still doesn't want to come near a telephone. Although it is about different generations and it is clear which one has primacy, there is no doubt that they still live (and in some cases work together). Furthermore, Drucker says that we are on our way to jump into a stream and it seems it is going to be pretty strong and fast. Because of that Wang says that it is necessary for the leading world experts to dedicate themselves to this problem like it was the case on the conference "*The CEO in a Wired World*" (Peter Drucker, Nicholas Negroponte from MIT, futurist Alvin Toffler, etc.). What represents special value of this position is actually the test which Wang puts forward and which can be used in every company, and it is called (How Disconnected Is Your Company):

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### Test How Disconnected Is Your Company

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**Test:** Every job is based on unique balance between corporative and techno-management. Answers on the following ten questions can indicate the role of information technology in your organization.

**1. More than half of applicative projects started in the last 12 months were never delivered.**

☐ Correct ☐ Incorrect ☐ Without attitude

**2. More than half of applicative projects delivered in the last 12 months were late.**

☐ Correct ☐ Incorrect ☐ Without attitude

**3. More than half of applicative projects delivered in the last 6 months exceeded the budgeted.**

☐ Correct ☐ Incorrect ☐ Without attitude

**4. Changes in information technology exceed 15% a year.**

☐ Correct ☐ Incorrect ☐ Without attitude

**5. Planning strategies of information technology was done without basic input delivered by corporative management.**

☐ Correct ☐ Incorrect ☐ Without attitude

**6. More than 10% of business units buys information technology and use the services by non -corporative parts.**

☐ Correct ☐ Incorrect ☐ Without attitude

**7. Business units work without unique and overall information system, (in a sense of its architecture) and standards.**

- ☐ Correct                      ☐ Incorrect                      ☐ Without attitude
- 8. Two or more business units have independently developed applications which are mostly similar or their scopes are the same.**
- ☐ Correct                      ☐ Incorrect                      ☐ Without attitude
- 9. "First man in information technology" (The senior information technology executive) and CEO haven't had a significant meeting in the last 6 months.**
- ☐ Correct                      ☐ Incorrect                      ☐ Without attitude
- 10. Comparative advantage can be focused on innovative usage of information technology.**
- ☐ Correct                      ☐ Incorrect                      ☐ Without attitude

#### TEST RESULTS:

**0 to 2 points:** There is a first class synergy between information technology and overall strategy in a company; leaders of your company really deserve high managers awards.

**3 to 4 points:** You represent leading organization according to corporate strategy and information technology. (You need small fear from competition in order to do better)

**5 to 7 points:** Resources of your information technology are still based on tradition of American data centers from the middle of 1980s. All problems should be "addressed" if you want the organization to "emerge" from problems.

**8 to 10 points:** There is a serious lack of coordination (massive disconnect) in the work of corporate and information management. At the first sight, it seems that profit, quality and stock market are all different. As soon as possible pay attention to disconnect as a major problem.

## 5. CONCLUSION

Implementation of Intelligence, in order to benefit from modern information transparency in individual countries, is obviously necessary in the countries in development. Swedish experience shows that almost all necessary information for national planning is possible to obtain from sources open to public, when the country takes necessary steps to reach information. What was said for Sweden and Malaysia can be applied in other countries. The question is how to make a structure which suits the countries in development? As UN Conference for science and technology showed- this is international problem- a problem of establishing social Intelligence. Despite relative archaism in technical data and parameters, mentioned study of the case is the real example that there is no way, there cannot be a social and economy development without Intelligence concept. Swedish and Malaysian example speaks about particular analysis of two small countries known as *Sweden versus Malaysia* [14] which shows that information infrastructure of one country, together with its social structure, people and equipment for processing data and transmission, makes »the brain of society«. That is the only way to monitor preconditions for »opening towards markets« [12], with simultaneously avoiding particular »traumas from the past as an obstacle for transition« [8]. Example shows that with long scientific tradition, quite open attitude towards information and sophisticated infrastructure, Sweden represents a typical example with a well developed social Intelligence, which is very important for change concept, for the future embodied in »*Knowledge Management*«. What is important is that the author [14] of this analysis claims that with the help of modern computer and telecommunication technologies it is quite possible for countries in development to go in the same direction and illustrates that by monitoring the development of scientific and technical information network in Malaysia. From this comparison it is clear that by professional, and above all manager activities it is possible, in the countries in development, to reach the level which would enable »the brain of society« [1] to mature fully. In that way »*Knowledge Management*«, as a new management concept or approach, a new specialized management discipline which deals with gathering, spreading and using different types of knowledge for improving productivity and business efficiency of companies, that is the process where knowledge is created, conquered, shared and used, will be able to »offer« the way to Kotter phenomenon such as [6]: Reengineering, Restructuring, Quality Programs, Mergers and Acquisitions and Cultural Change.

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## MODERN BANKING SYSTEMS

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**Summary:** *The banking system, a banking organization in a country or group of countries, in terms of structure, function, ownership of banks and mutual connection. Banking systems are different, or have certain similarities between the individual countries or groups of countries based on the fact that they all share a central bank and a large number of commercial banks of various profiles. Generally, depending on the type which belongs to the leading role in the financing of companies there is a split in the model is based on the banks, and the model that is based on the market.*

*This paper aims to show that two models are not listed static and are in constant process of change and from this reason, in the modern economy is more about banking system of which we will describe the most important, which are mutually different, but with certain similarities*

**Keywords:** *banking, organization, financial markets, operations and control*

### 1. THE BANKING SYSTEM OF U.S.

The banking system in the U.S., Central Bank of the United States, the Federal State Reserve, (*Federal Reserve System-FED*) was established in 1913 as the U.S. Federal Reserve system, with characteristics of a complex central bank. FED, as a central bank, is composed of 12 Federal Reserve banks, thus it is a respected federal state polity. FED creates and implements the monetary policy, performs the operation and services for member banks, performs government jobs, and performs supervision and control of the business of member banks. FED acts as a fiscal agent of the United States, since Member States hold government deposits and pay the obligations of state treasury. Of course, the central bank system broadcasts bills through the state treasury. The Capital of FED was created out of the member banks' capital [2].

The American model, which existed until the year 2000, was based on the strict separation of commercial and investment banking [4]. This model was formed according to the laws from the year 1933 (Glass-Steagall Act), which was enacted after the great economic crisis of the early thirties. Then, the assessment was accepted that the causes of the crisis were related to the great credit expansion of commercial banks, which preceded the stock market collapse, which pulled into the economic crisis not only the American but also the entire world economy. In addition, the law was passed that limited the branch networking of every American bank, and just the federal state, which is the main headquarters of the bank. Thus, the structure of the banking system was created, which consisted of very decentralized bank networks as well as a strict separation between commercial and investment banks.

However, the dispersal of commercial banks was counter-balanced by the unique capital market through which larger companies could deposit and sell their securities and thereby collect additional capital to finance large investment projects. Investment banks prepared emissions of corporations' securities. In recent discussions, it was pointed out that the upper legal limits were adopted under the pressure of lobbies of investment banks that were trying to limit the competition of commercial banks by using the law to prevent the participating in the issue of securities. In addition, local community and state lobbies - through the closing of commercial banks into the borders of a federal state - attempted to defend them selves from the penetration of large New York banks [5].

The above concept has contributed to the faster growth of the U.S. financial market in relation to the growth that would have existed if greater intermediation of commercial banks were allowed within all the countries of the United States. As well as if commercial banks had a legal basis to carry out emission of securities of large

companies in the capital market. It can be assessed that the above concept seemed to limit the concentration of potential and impact of commercial banks and at the same time, contributed to a strong role of the capital markets.

Although in the American system there is an internal control performed by the administrative board of the company (board of directors) of administrative management, the focus is on the foreign control through the capital market. The role of banks in the foreign control of major companies is not particularly significant, but for this reason that the investment funding only by small part is performed through the banking institutions and largely through the issue of shares and bonds in the capital market.

Only companies that are not registered in the financial exchanges, more focused on bank lending in this segment of the economy has a strong role of banks in the control implementation of small and medium sized companies (*corporate governance*).

However, according to the laws of 1994, it was permitted that banks open branches in other federal states as well as to perform fusion of banks whose main offices are located in different federal states. With this, the territorial limiting of commercial banks operations was abolished, so now, U.S. banks can operate throughout the territory of the United States. At the end of 1999, a law was passed which brought in even more important institutional changes in the American financial and banking system. These changes relate to the abolition of the legal separation of commercial banks, investment banks and insurance companies. The creation of “financial holding company” was allowed which won the right to be able to engage in all forms of financial activities. This created the institutional conditions for the integration (through mergers and acquisitions) of commercial banks with investment banks and insurance companies.

In functional terms, there are still differences in the business of insurance institutes, investment banks and commercial deposit-credit banks'. However, in terms of ownership, these three types of financial institutions can create a type of ownership combination that their shareholders rate as the best choice for creating profit. These proprietary re-compositions have their continuation in organizational restructuring and the creation of new forms of distribution networks, where it is of special importance the breakthrough of new information technologies.

The Ministry of Finance and State authorities control unsecured banks, while other banks, depending on whether they are in the FED system or not are under the control of Federal Reserve banks and the Federal Deposit Insurance Corporation (FDI). Federal Deposit Insurance Corporation was established in 1993. They provide insurance to savings and other deposits up to 1000,000 USD and banking administration departments [14].

## 2. THE BANKING SYSTEM OF GERMANY

In the German history, many similar processes can be found that have caused the occurrence of financial system similar to the one in Japan. The low level of “moral risk”, a strict procedure of bankruptcy and restructuring, which were dominated by the bank, characterize the German system also [1]. These reasons may explain the preference for the German state supported cartels and formally integrated corporations. In addition, smaller companies cartels in Germany can be viewed as an alternative way to achieve a stronger market position, which posses vertically integrated companies in the U.S.

The role of the financial market has traditionally been very limited, although recently there has been a rapid rise of capital markets. *Universal Bank* is a characteristic concept for the German model of banking, and it presents commercial and investment banks, which are the main source of financing in the economic sector [14].

Universal banks are the main source of financing for companies of all sizes. Of special importance is the relationships between universal banks and joint-stock companies, because banks provide not only loans with a number of different repay terms, but also perform investments in the share capital of non-financial companies. Universal banks also perform financial services in connection with the issuance of shares and bonds of companies in the capital market. Capital market in Germany is less developed than in the U.S. [16].

Because in the German model there is a dominance of universal banks in relation to the capital market, it is logical that the company control over banking institutions is more important in comparison to the financial exchange. Ownership takeovers through the capital markets have rarely been used in the German model. Proprietary processes and software restructuring of companies in the German model had other forms than the American model. Namely, the restructuring of ownership and transfers of control packages of shares were mostly carried out behind closed doors by universal banks and large shareholders.

Relevant characteristic of German banks is the concept *major or domestic banks* (“Hausbank”) for specific non-financial company. This means that one company has a bank that is a shareholder in the company and performs the main part of the financing. However, the main bank has no exclusive right nor as a shareholder, nor as a creditor so that other banks can buy shares of companies, and to participate in it's financing. This is significant because the German model seeks to maintain a high degree of competition in the banking market as the main segment of the overall financial market. Although it tends for more banks to participate in the share capital and financing of companies, it still has one bank that stands out has a key role in it. This is similar to a consortium of

investment banks in promoting a new series of company securities, where one investment bank has the function of a coordinator of the consortium. Even giant concerns have a major bank (Hausbank), and Deutsche Bank is a major concern Bank of Daimler-Benz and it was responsible for realizing business and fusing the two previously separated corporations, Dresdner Bank is the main bank for the automotive concern BMW. "The society needs to think about their future growth" [8].

A relevant characteristic of the German model is that the universal bank may have a share of company's equity in the real sector of the economy. However, laws limit the participation of banks in the share capital of the company. Therefore, the bank can own shares in a non-financial company only up to 15% of the share capital, if the total value of shares in all non-financial firms may be at a maximum of 60% of the share capital of the bank. [8].

German model of banking is based on the general concept that seeks to reduce the impact of volatile stock oscillations on the functioning of companies as well as that the major role in the control of the company have the supervisory board and the universal bank. In such a concept, the universal banking concept fits in, especially the concept Hausbanke, as a main bank of a certain company. The positive side of this concept is to reduce information asymmetries between borrowers and lenders. It was concluded that universal banking increased the performance of German companies [10].

### 3. THE BANKING SYSTEM OF JAPAN

Central Bank is the Bank of Japan established 1882, and operates as a unique institution with all the permissions of a central bank and a relatively high degree of independence. The capital is by majority the share of the state, with private participation of about 45%, which is not a negligible percentage.

Japanese model is similar to the German model, although somewhat different. In the Japanese financial system, there was a significant state control of the financial sector as well as the specialization of banks. Commercial banks deal mainly with short-term deposit-credit operations, where specialized financial institutions grant long-term loans from the potential, which was formed through the sale of long-term certificates of deposit, and not from deposits.

The rise of Japan as a financial center was based on high rate of economic growth, extremely high rate of savings toward GDP, low budget deficit toward GDP, high rate of export growth and significant surplus in current payment balances. Based on that, in the eighties, Japan made a spectacular rise in the Nikkei stock index and made a strong penetration of Japanese banks in Europe.

In the plan of banking, the Japanese model has a characteristic role of the main bank with whom they formed an industrial conglomerate known as *keiretsu*. The industrial conglomerates *keiretsu* type include a number of companies among which are also insurance companies and stock companies. Within each *keiretsu* group there is always one commercial bank, which usually represents the pivot of the whole industrial group.

The immediate and lasting relationships between the main banks and *keiretsu* groups allow the banks to carry out permanent *monitoring* of the performance in the business of companies in the industrial group. Therefore corporate control (corporate governance) in relation to large business systems is done mainly through the major banks that are the focus of the *keiretsu* group. Such a model of the relationship between industrial enterprises and banks will reduce the degree of information asymmetry and thus indirectly reduce the level of probability of company bankrupt. If a company has financial difficulties, the main bank intervenes quickly with fresh loans.

However, relations between companies and banks are quite subtle and rely on Japanese philosophy that emphasizes business moral and confidence in the foreground. In the relations, company / bank that specifically mean that the bank provides the necessary financing to the company, providing that the company guarantee the lender expected level of return. It is a subtle cooperative game between the bank and company. The company can get money from the bank in order to produce the expected level of return, but that the bank does not directly control the use of funds. If the company fails to achieve the expected level of return, the bank sends its representative to the Board of Directors of the company to perform supervision of conduct of the company. If the situation is deteriorating further, the bank can replace the General Director of the company. However, removal of main managers of the company creates a negative image of the bank. Therefore, both sides consult each other so it does not come to this situation [13].

In Japan, there are several large financial holding companies, which have a composition of many banks and other financial institutions. Significant are Kabushiki Kaisha, Mitsubishi UFJ Financial Holdings Inc., misuho Holdings. Inc., Sumitomo Mitsui Financial Group, Inc.. and Norinchukin bank.

#### 4. THE BANKING SYSTEM OF SWITZERLAND

Swiss bank system presents one of the most advanced bank systems in the world with a long tradition of business banking. In this bank system there is also a central bank – National Bank of Switzerland (Schweizerische Nationalbank) and a sector for business banking and also a special segment of cantonal bank and grouping the so called Raiffeisen bank which comes from the collective corporate banking.

The national bank of Switzerland started its business in 1907, and was organised as a joint-stock company [12]. Its basic obligation is to implement monetary politics, so it uses the country as a whole, providing price stability in conducting economic development. Special obligations are: providing liquidity on the money market, provision of and distribution of cash, providing non-cash payments, foreign exchange reserves management, and providing an adequate contribution to the stability of the financial system.

Segment commercial banking in Switzerland is based on the concept of universal banking, although some banks are specialized for certain types of banking operations. In 2005, there were 337 banks registered in Switzerland. Cantonal banks are considered state banks and mainly engage in mortgage business transactions, but commercial banking also. In the large bank group, there are two banks, namely: UBS AG (which was created in 1988 by merging two big banks - Union Bank of Switzerland and Swiss Bank Corporation) and Credit Suisse AG. They are merged in the Switzerland Raiffeisen banks Union, which has a coordinating role for member banks of the Union.

Private Banks and savings unions, mainly deal with population matters, commercial and mortgage banking business in the local (regional) framework. The remaining segment of the Swiss business banking is made of different profiles, often specializing in business lending trade, industry, private businesses and small companies. There is a segment of the Switzerland commercial banks, which is under foreign control (ausländische beherrschte Banken), in which the participation of foreign persons in voting rights is over 50%, and which includes 25% of balance sheet amount of the banking sector of Switzerland [11]. They generally operate with foreign funds and deal with various forms of asset management.

#### 5. ISLAMIC BANKING SYSTEM

Institutionalized Islamic banking is relatively new and it exists only a quarter of the century. Organization of the Islamic state founded in 1975 an inter-Islamic Development Bank with the task of financing the economic and social programs on Islamic principles. That same year, the first Islamic commercial bank was established in Dubai - Dubai Islamic Bank [3].

For the previous period, Islamic banking records rapid development. At the end of 1997 worldwide, in 35 countries there are about 200 types of Islamic financial institutions with 300 000 employees and a capital of \$7.3 000 000 000, and profitability of capital of 17%, which is why Islamic banks belong to a group of high profit international banks. It is interesting that lately, the services of Islamic banks are not used only by the so-called “natural” - Islamic- clientele, but also well known companies such as General Motors and AIBM. At the same time, leading Western banks are opening Islamic departments within their banks, and in mid-1997, City Bank in Bahrain, established their own Islamic bank with a capital of 20 million dollars.

Islamic banking is part of the Islamic economic model, which bases its principles on the Koran and other sacred texts of Islam. A Muslim must not forget that all earthly treasures are the gift of Allah, who is its true owner. That is why the man is not the owner of the resources that have a market price or social value (money, the means of production, personal material wealth, copyrights, etc.), but is the confidant of Allah that can manage resources during their earthly life. However, the resources entrusted to man must be used for the good of an entire society and they should not be directed in the accumulation of wealth as well as be used in speculative operations (gambling and speculation in financial markets). If a man is unable to engage himself in the free resources available, he is required to invest in other people's business. At the same time, resources should provide substantive and rewards to confidants of Allah because the proper use of resources leads to the creation of real benefit and increase mass of goods and services. Therefore, investing their free resources in other business, they gain the right to part of the profits thus made. Thus, realized profit is a reward for the risk that accompanies the entrepreneurial activity.

In accordance with Islamic ethics, the only wealth that is justified is the one resulted out of own work or entrepreneurial activities, as well as inheritance and gifts. Using or sharing of resources is not considered the act of exploitation, if in such economically justified proportional values are not disturbed, and if the obligation of fixed fee is not pre-determined in using the resources. Accordingly, it is not allowed to exchange non-equivalent sums of money as is in the case of credit operations. If a greater concentration of resources is needed, it should come through the business association in which participants jointly share profits realized and bear any losses. This principle fully applies to well known banks that have a role of financial intermediaries. Their reward

directly and entirely depend on the final business result of the company where money resources were invested [7].

In simple terms, the main technical difference of Islamic and other banks consists in the fact that the Islamic model has no interest rates, as the “price of money” that is subject to a vast number of subjective factors, including often speculative ones, use a much more adequate category of “capital efficiency”. It is expected that the cash resources that are oriented directly to the profit will be directed to those sectors of the economy whose potential best assesses market. The foundations of the Islamic economy is *equity finance*, or the mobilization of funds through direct participation in the capital. Lately, it is believed that equity finance, as opposed to traditional bank lending which is foreign to Islam, the future of corporate financing, because in the western economy, interest rates which largely depends on the discount rate of the central bank, dictates the development of the real sector. In contrast, in the Islamic financial system the income for the invested funds depend on the success of companies in which the funds are invested. Supporters of Islamic banking argue that financing through this model makes it possible to stop the practices based on the real sector of the banking interests of capital, which is characteristic for the system based on the interest rate. In this way, banks will not dictate the pace of real sector economic development, but the manufacturing sector will on its own; create for itself a favorable investment climate by providing guidance of financial resources in the most successful sectors of the economy.

Many promising projects that are rejected from western banks due to the lack of deposit can be financed by the Islamic banks based on participation in profits. Islamic bankers make decisions about funding based on the evaluation of the perspective of the project, which is proposed, and the quality of the client. Since in the Islamic banking model, the customer’s duty is not to refund the bank a certain amount of money taken, but is to use the entrepreneurial skills in order to get the maximum achieved commercial success of the project in the specific market conditions. Hence, the rating of the quality of the client is performed, not from the standpoint of its financial position but from the point of his entrepreneurial abilities.

Islamic banks often do not require collateral from the client. However, just this creates a danger of machinations of both by the client and by the administration of the bank. To neutralize this threat, Islamic banks have developed special procedures, many of which are similar to the procedures that Western banks are faced with when dealing with various types of abuse. The main method in dealing with machinations is a detailed audit of all operations of the client.

Since 1975, when institutionalized Islamic banking was invented, instrumentation and methodology are fully developed and successfully applied. Although it is based on the principles of Islamic Law, however, we can still see a number of common elements with Western banking.

Islamic Banks for their clients, open up three types of accounts [7]:

First, an account, where the bank does not pay interests on the funds, and where the bank guarantees the customer the return of all their invested funds at any time.

Second, a savings account where the bank also guarantees the return of investment funds. The owner of this account is not entitled to share in profits, but the bank administration, on their own initiative, can pay a premium depending on the realized profit of the bank. The funds from these accounts the bank seeks to focus on businesses with little risk, as a rule, the financing of trade operations.

Third, investment account, where its owner has the right to share profits with the bank, but also the obligation to bear the losses according to the *scheme profit and loss sharing* (PLS). Here, not only that there is no guaranteed growth in invested assets, but also there are no guarantees on the complete invested funds, as losses are compensated for the account of funds on investment accounts.

Islamic banks remain institutions, which accumulate funds from natural and legal persons. Legal persons entrusted their funds to the bank, which will invest in operation, whose economic justification the bank can much better assess with the help of its highly qualified experts. Then, the bank enters into an agreement with a client, where it foresees, that both parties, in the case of successful completion of the operation, will make a profit. The agreement also foresees the possibility of losses due to objective, market reasons. At that time, the client has the right to determine the reasons for losses through the court. In the case, that it has proven that due to errors of its management (professional mistakes or direct abuse and irresponsibility); the bank will bear full financial responsibility to the client. In this way, the Islamic Bank brings to perfection the role of financial intermediaries. It only makes profit in the event that the client funds are economically invested with a success, as well as in the case of failure its not risking its own capital. In their business, the Islamic banks rely on a number of financial instruments, formulated based on the Islamic Law. However, often behind Arabic instrument names, operation are hiding that are not so foreign to us. To mention some of them:

Mušaraka - Joint realization of the project or the operation of foreign banks and entrepreneurs (the bank's profit is part of the total realized profit of a specific projects or operations).

Murabaha – Financing, usually commercial operations on the principle of “bank costs plus bank fees for services rendered”.

Idžara - Operation that we are known to us as leasing.

Mukarada – A technique that allows the emission of specific “Islamic bonds” for financing specific projects. Its owner, like the owner of shares without voting rights, is entitled to part of the profit of the project, but also loss created is his obligation.

Regardless, that from the Islamic banking theory standpoint, the advantage should be given to operation of joint projects, banks and entrepreneurs (mašaraka) in practice most of the placement of Islamic banks is focused on short-term trade financing operations in which the bank realized income from “bank fees for services rendered” (murabaha). Concentration on short-term operations of the bank is not desirable, not only because it is “doubtful” from a religious point of view (murabaha operation remind of interest bearing credit operations), but also because of purely economic standpoint, because it does not create stimulative conditions for long-term economic development. Studies that were conducted in some Islamic countries (Saudi Arabia and Pakistan) have shown that one (very important) reason for the negative relations of entrepreneurs to assume the operations of Bank participation in their income of joint funded project lies in their avoidance to reveal their complete accounting transactions to the bank.

In addition, serious problems arise when crossing over to the Islamic system, when funding of state expenditures with the public debt, since it is not possible to broadcast the state bonds that bear interest.

The fact that today in many countries, virtually all continents, there are banks that in greater or lesser extent, are guided by Islamic principles indicates that there is a demand for such operations and that the Islamic banks are able to compete with “traditional” western banks [7].

Muhammad Yunus, Nobel Laureate for 2006, the creator of the Grameen Bank (Dhaka, Bangladesh), which was established in 1986, as a microfinance organization that provides micro-credit lines without asking for security (collateral). It is interesting that the beneficiaries of the micro-credit line are almost exclusively women.

The system is based on the idea that the poor have skills that are not sufficiently exploited.

The Bank combines some of the concepts of modern Islamic banking and banks, because other than banking services focused on other highly profitable sectors.

## 6. CONCLUSION

Considering the special conditions, which were present in both market economy and its banking in certain areas, it led to certain peculiarities in the organization banks and the banking system.

The banking system is a banking organization in a country or group of countries, in terms of structure, function, ownership and the connections between banks. Banking systems are different or have a certain similarity between certain countries or groups of countries, given the fact that they all have in common the existence of central banks and large commercial banks with different profiles.

The process of constant changes has a tendency to bring closer these two models, and this convergence comes from the evident necessity of spreading the scope of banking activities in the capital market. In the U.S., which is a synonym for a financial model based on the market, it creates growing pressure on banks to have a significant role in corporate financing. “Something seems to move on the international financial stage. And this movement seems to be moving in one direction: electrical model in which the banks and financial markets play an important role in corporate finance”.

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## TOWARD NEW ECONOMIC SERVICES

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**Summary:** *Services occupy the central place of economic activities of each society. Services marketing concepts and strategies are caused by huge growth in service industries, which resulted in the growing importance of services for the world economy. Total growth in the number of jobs and the fastest growth rates in the business information on jobs, are actually in the service sector. In the modern world economy processes are highlighted: terciarizations - increase in the number of new jobs in the service sector, with more than 50% in developed countries (USA, France, Belgium) employees in the service sector, Outsourcing - the role of services in support of production of material goods. A number of innovative technological changes reflect the growth of services as well as the growth of other sectors of the economy. The positive correlation between growth and development of technology services for the researchers the right to speak about the "old" and "new economy".*

**Keywords:** *services, technological development, economic growth.*

### 1. INTRODUCTION

With greater influence of the services sector in the sphere of market competition, there is an increase of talks about new, significant changes. For most companies, this essential change has directly influenced the managerial thinking and the setting of a new organizational structure, through changes in the way of action in the market and the division of responsibilities between the different functions in the organization.

According to Peters[8], overriding influence on changes in economic conditions was the general uncertainty in the society, technological revolution, new competition as well as the changing consumer tastes. General uncertainty falls into the most uncertain forces, both in terms of predictability, and as well as its comprehensive influences.

It is evident that consumers are looking for much more than just technical solutions (design, packaging), as from the service sector, and from the industrial sector. Different tastes, and therefore the choice of consumers, are a normal consequence of the increased choice - offer of purchase goods and services, as well as a higher degree of prosperity and saturation of the market with goods and services from the previous period. Grönroos [5] states that the two main sources of these changes can be identified, bearing in mind that changes were created under the influence of the market (market-driven) and under the effect of the technology development (technology-driven).

Consumers are more and more selective in their requirements, which are constantly increasing, which leads to growing competition in a number of industries. This actually indicates that new market demands must be taken into account in order to increase the value of products and services compared to the technical solution that contains the goods or services.

Expansive development of communication technology significantly increases and speeds up the possibility of faster and more precise data collection on the needs and expectations of consumers, which leads to the shortening of designer product and services time, and faster market exposure – i.e. significant acceleration of consumer distribution.

The appearance of new competitors (foreign and domestic), inevitably, leads to significant consequences for organizations in all spheres of economy, and a number of consequences emphasize the following:

- Significant increase in the level of uncertainty in the economy;
- Mass loss of market goods and services;
- a greater choice for consumers;



- Increased market fragmentation, with the appearance of new competitors;
- A huge increase in supply of goods and services in the market;
- Increased demand for quality and fast response;
- Increased level of complexity and
- Companies that appear in the form of competitive business units of large companies.

## 2. THE IMPORTANCE AND DEVELOPMENT OF SERVICE ECONOMY

Theorists of this orientation the history of humanity divide into three epochs, which characterize the corresponding economy. So for the agrarian epoch, the primary sector, agriculture, mining, forestry was predominant; for the industrial epoch, the secondary sector or the production of consumer goods, while for the postindustrial epoch, the characteristic tertiary sector or services, education, information.

The Economy is the main parameter by which the willingness of society is determined, to accept the postindustrial form of organization. For the beginning of the new epoch, the period starting from the 1939 can be considered, when the GNI of America reached a 50% of shares of services sector and in the mid-fifties, when the number of U.S. workers in service industries was higher than the number of employees in the immediate production.

One study showed "25 hottest careers" (Working Woman, July 1993) the development of services that are located in five major segments, and that is information technology, education and training, health care, management and small business services opportunities. If we take into account the increasing demand by consumers for consumer services that accompany the product, the U.S. economy can be called service economy in which there are about 95% service-oriented jobs.

The economies of developed countries are increasingly losing the epithet of the industrial economy and gain characteristics of service economy. Many researchers present data, which show that more than 75% of gross national income of the U.S. economy is actually realized by the service sector. This is the case with economies of France, Belgium, Holland, Denmark, Great Britain, and Hon Kong.

**Table 1:** Displaying the most valuable global brands 2004 / 2005

Rank	Brand	Value 2005. Billion.	Value 2004. Billion.	% change 2005/2004.	Country of origin
1.	COCA -COLA	67,53	67,39	0%	SAD
2.	MICROSOFT	59,94	61,37	-2%	SAD
3.	IBM	53,37	53,79	-1%	SAD
4.	GE	47,00	44,11	+7%	SAD
5.	INTEL	38,59	31,11	+6%	SAD
6.	NOKIA	26,45	24,04	+10%	Finland
7.	DISNEY	26,44	27,11	-2%	SAD
8.	MCDONALD'S	26,01	25,00	+4%	SAD
9.	TOYOTA	24,84	22,67	+10%	Japan
10.	MARLBORO	21,19	22,13	-4%	SAD

Another indicator of economic importance is the growth of trade in services around the world. In fact, while the trade balance becomes a scarce commodity in 1992, in the sphere of trade in services an excess of 59 billion dollars occurs!

World-known suppliers of services such as American Express, McDonald's and Walt Disney, with many small service companies export information, knowledge, creativity and technology, which is very necessary for the world.

The value of U.S. companies MICROSOFT and IBM are estimated at over \$ 50 billion USD in 2005. (Shown in the most developed global brands).

Daniel Bell (1973), professor of sociology at Harvard University, represents the natural development of economy and society, from pre-industrial, through industrial and, ultimately, to the post-industrial society.

The economic activity of society determines the nature of how people live, and the manner in which the living standard is measured (Stanley, 1983). In this regard, service organizations can overcome the competition if you solve what they offered as a set of “rules of the service game” (Schneider and Bowen, 1995). The reason for the emphasizing of the service game is that it is completely different compared to the processing service industry. It should be emphasized that the gradualism in the process of development of the nature of work:

1. Agrarian “struggle against nature” in the fight where man goes against nature.
2. Industrial “struggle against processed nature” which is characterized by the opposition of man vs. machine.
3. Post-industrial service “struggle between individuals”, where the battle dominates on the relation between a professional and a client.

As above mentioned, theorists the development of humankind view mainly through three epochs, which are characterized by the appropriate economic income. Thus, under this conception, for the agrarian epoch the dominant primary sector (agriculture, mining, forestry), for the industrial epoch, the secondary sector (manufacturing consumer goods), while for the post-industrial epoch, characteristic tertiary sector (services, education, information - see above explanation). This means that the economy is the main parameter by which the authors determine the willingness of the society to accept the postindustrial form of organization. Thus, the beginning of the new epoch, in the mid-fifties, when the number of U.S. workers in the administration and services for the first time exceeded the number of workers in the production spheres [12].

Daniel Bell, to explain closer, agrarian epoch presents as „a game against nature“, industrial as „game between people and things“, and modern economy presents as „a game between people“. The determining economic factor is no more muscle power, energy, but its information. In new conditions, the central personality is given to energy, as well as education and experience which is necessary.

The term „service“, Bell treats in the context of genesis of the entire economy from the industrial into postindustrial. In his opinion, in the industrial period, there is a breakthrough with transport and other services linked to the production of goods and the rising use of energy. In the developing consumer societies, according to this concept, it comes to the rise of employment in the market, finances, social security and other services. National wages constantly increase, so that a small percentage of the private household budget goes toward food, and a large percentage goes toward clothes, cars, furniture and recreation. There is a rising development in the sector for private services linked with tourism, fun, sport and other spheres, and special attention is paid to the education and health sphere [3].

“Sickness eradication, and the rise of the number of people that live their life to the fullest, as well as the persistence to prolong the human lifetime, make the medical service a crucial characteristic of the modern society; also, the rise of importance of technical knowledge and professional ability create education, and especially high education, create a condition for joining the postindustrial society” [1].

Bell considers that in the analysis of the new social shape should not come from the classical division between capitalism and socialism, but from noticing the “economically based”, or “socially based” factor. Hence, the “economically based” factor would be directed toward the functional efficiency and management of objects (where people are viewed as objects) while the “socially based” factor would be used for realizing other social criteria, hence, certainly including and decreasing efficiency, therefore increasing expenses with follow the addition of non economic values. For the postindustrial society, Bell considers that the most valuable thing is in fact the balance between the economically based and the socially based factor [3].

For Kan, the base factor is in fact the economic factor in determining the achieved level of development. He takes into account the fact that the rise of population and the gross national product (GNP) for determining the gross national product by per person (GNP per capital) as a basic sign. As a solo condition for the society to migrate into postindustrial phase, there is a price of \$4000 for crossing the border, GNP per capital. The projection of the population rises for certain countries, but also for the whole planet. Kan states this according to the current statistical data. He brings forward an optimistically report that the high rate of natural growth will decrease in the following century, so that the total population on Earth will stop at around 15 billion people. This type of prediction he backs by the reverse proportioning of the received degree of economic development and the level of natural growth, therefore their joining regulation.

Kan predicts that the economic growth will also stop and stay at a figurate level when the world development in essence circles, which would bring the situation to a complete economic balance. As a first backup for this type of prediction, Kan mentions the drop in the natal rate, therefore keeping the quantum population and a certain level; the second reason is the decrease in profit because of the rising expenses of production. In addition, he predicts that with the entry into postindustrial era, there will be a decrease of basic use for wealth, in other words a minimizing of importance of material wealth. The economic growth would stop and stay due to the simple nature of growth, because the quaternary services, which are non-profitable would gain importance, while the primary, secondary and tertian services would gain a symbolic place in the BNP frame [3].

Boulding teachings are greatly different from Kan’s teachings, viewing two basic problems which in the economic sphere present them selves before the society in transition: the first is the “incapability of some

societies to organize themselves for transition”, and the other is “the general incapability of nearly all societies, also including the societies with new age technology, to control the rise of the general population” [2].

Boulding claims that uncontrollable rate of population rise presents one of the most serious threats, not only to the development of certain societies, but a threat to the survival of humankind as a whole. According to him, a high rate of population growth can be one of the factors of society development, only in the first phase of development, however, when the society reaches a certain level of development, and that is the “civilization level”, high rate of growth becomes counterproductive and surely leads toward stagnation and digression of the society as a whole.

According to Toffler, economy of the “third wave” will rely on services, and the basic process of production will go through certain changes. Namely, the industrial production would still exist, which would function with an increased automation and with this, the decrease of working capacity. Therefore, while in the industrial period, there was a production of goods in large series, the production of the third wave is the production on a small scale, and products are partially or completely made according to the individual preference of the consumer.

The difference between the production in the second and third wave, Toffler also sees in that, the production of the second wave was “Cartesian”, hence products were made of mosaics in many different pieces, while the production of the third wave “Post Cartesian”, because the products are made of a lesser number of highly sophisticated pieces [13].

Economic growth for Tureen is in the “programming society” and is no more the fruit of the solo accumulative capital, as it was in the industrial society, but a total of social factors, from which the main factor is knowledge, hence “the ability of a society to create new” [14].

Regardless whether it’s a question of scientific or technical research, regarding vocational education, regarding the ability of programming changes and the control of relations between elements, or the management of organizations, the spreading of favorable condition for the development and the continuing transformation of all factors of the production process – for Tureen of all sections of the social life, but in the first place education and informing, “more and more belong to that, which was once called “production forces” [14].

Besides the prevalence of the tertian sector of processing, in this theoretical guidance of a characteristic of the economic sphere of new social shape, also the parallel existence and development of large multinational corporations and small production and service units are promoted. Gorch, who believes that these two systems are compatible, in a way where the industrial production would satisfy the basic life needs while in the “autonomy sphere” all the other needs would be satisfied, teaches this type of approach.

Toffler introduces the term “produspence” [13], which labels the appearance of a growing production of products for personal use. With the used of brand new technology a production of own means is made available, as well as the meeting of needs with services. With this, strict laws of the market place are dealt with which were specific for the industrial epoch. Authors of the advanced economy, pluralistical forms of the society take us into “the movement of balance of economy from the secondary (production) into tertiary sector (services, information), as well as in the specific synthesis, of a smaller different autonomic units and large integral production and service conglomerate” [3].

In the pre-industrial society, world population is fighting for the pure survival, which mainly depended on nature, on the weather changes (and disasters). The increase of the world natal rate, on one side, as well as the minimal work productivity, and on the other side, the rise of high unemployment, so even more human resources are looking for work in new, service spheres. In the industrial society, the primary task is presented with the production of goods, the basic sintagma states, “do the right thing” (efficiency). In other words, it is necessary to minimize investments, and with that maximize the result, which presents the main objective of the industrial society. The living standard in the industrial society was predetermined by the quantum of goods produces for the needs of the market place, however, in the new, postindustrial society; the standard of the human population is presented through the quality of living and the quantum of produced services in put forward.

Giarini [4] believes that services present important, mobile means and determines the force of the economic mechanism in the goal of meeting the basic needs of the consumer, and for increasing the wealth of the nation.

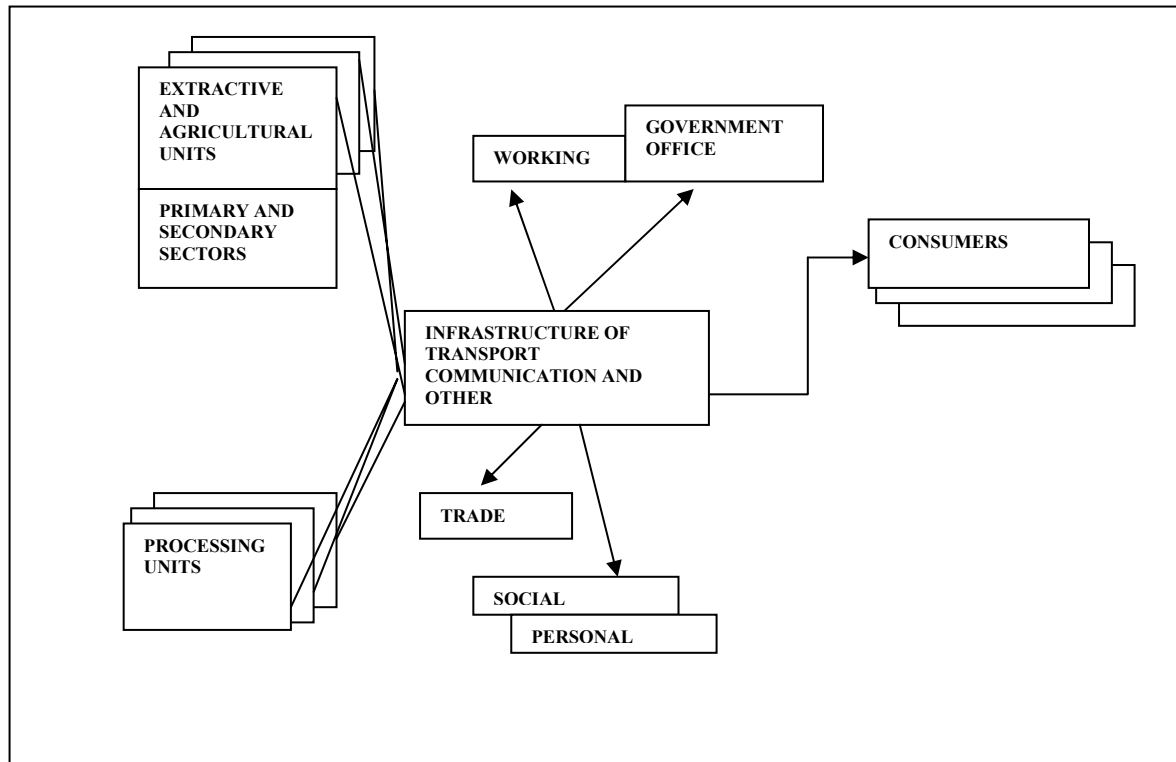
Heskert brings up his thoughts stating that services have taken up the role of an economic leader, so that services have become a real production factor and take up a completely same position as the material production.

Elements and their direct impact on the development of service economy are:

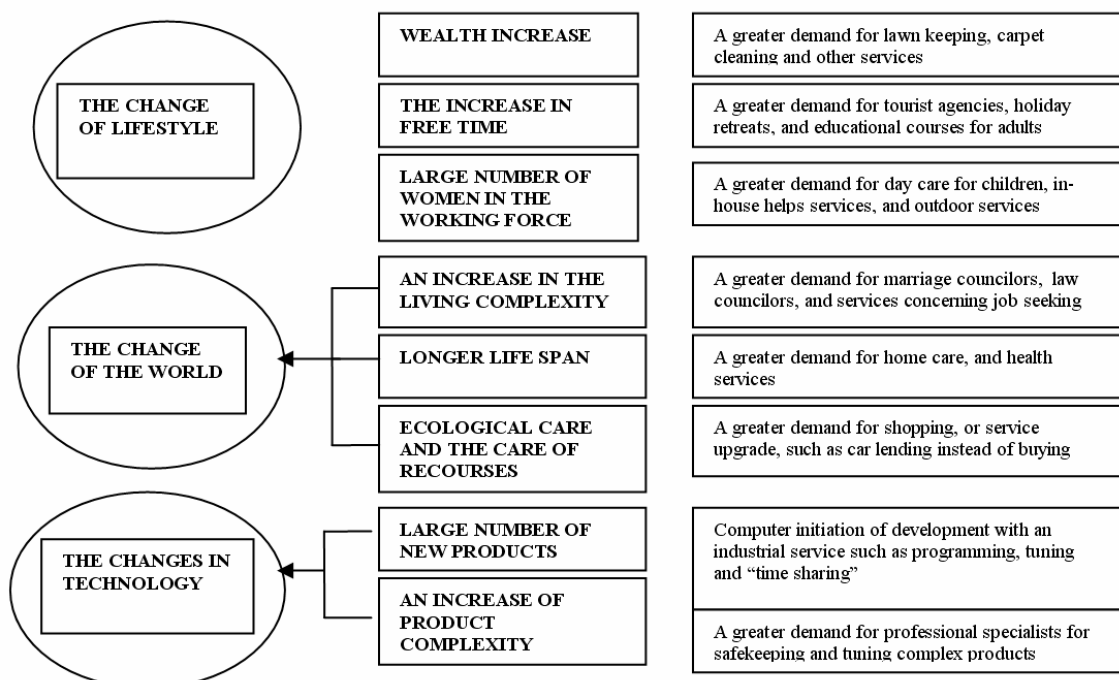
1. The change in lifestyle
2. Change in the world
3. Change in the technology.

Multiple innovative technological changes sustain on the growth of services as well as on the growth of other sectors in the economy. That positive correlation between the development of technology and the rise in service demands, gives researches the right to speak about “old” and “new” economies.

Ochel i Wegner [7] give characteristics of “old” and “new” service economies in a following manner:



**Figure 1:** Service mechanism can be presented in the following manner [9]



**Figure 2:** Elements, which determine the development of service economy [10]

Old economy:

- Standardized production and production lines
- Production of services in our homes
- Local market places
- Vertical integration in large corporations and
- Stiff technology

The new service economies are characterized through:

- The increasing and connecting assortments of goods and services
- Externalization, the use of networking through interpersonal links
- Vertical disintegration, small businesses and large transnational corporations
- Flexible means of production

The new economy of services does not affect only the volume and composition of trade between countries, but also on the international sector of economy, and this allows their monitoring and their contribution of changes in the economy.

### 3. PRODUCTS AND SERVICES

There are evident similarities between products and services but that does not mean that they are synonyms, but they are not completely different either so they cannot be completely separated. Services include all economic activities whose result is the un-tangible form, which is used in the same place where it is produced, and meets the consumer needs. The production services can but does not have to request the use of tangible products. In case that the tangible products are used-consumed, then there is no change of ownership on those products [11].

Services for consumers present [12]:

1. The use from specific services,
2. Has non-tangible characteristics and
3. Is not the product of just any owner

**Table 2:** The characteristics of product and service producers [6]

More similar to the product producer	More similar to the service producer
1. tangible; long life product	1. Non-tangible; short life product
2. Output can be warehoused	2. Output can not be warehoused
3. Low consumer contact	3. High consumer contact
4. Long term reaction	4. Short term reaction
5. Regional; national; international market place	5. Local market place
6. Large monetary means	6. Small monetary of means
7. Capitally intensive	7. Work orientated intensity

There are many characteristics of services, which are listed according to the subject and the objective of the study. All these numerous features of services together, also represent their distinctive differences in relation to a particular product, or - tangible good. The current classification of the diversity of services is provided depending on whether the services are based on human resources, the capital (equipment), or the motives of providing services.

The characteristics of services are actually their authenticity, specificity, and they include

1. intangibility,
2. lack of,
3. non-homogeny,
4. non-separability and
5. Non-continuity.

### 4. MODALITIES OF THE SERVICE STRATEGY

According to Grönroos [5]- the main focus of strategic thinking and decision-making should be directed towards the service sector. Grönroos lists four modalities of service strategies in order to achieve sustainable competitive advantage:

- strategy based on technical quality,
- strategy price of services,
- strategy of the services image and
- Servicing strategy.

With a consistent application of the modalities of the service strategy, the organization clearly highlights its key competence, which is bound to the offer of their services on the market. The focus of economic competition in

the new world order for Collier is a full-service-quality performance based on a well-laid strategy that gives emphasis on the combination of quality and service. Such a quality-service-winning combination shows how to apply to the various domestic and global markets, using a quality service performance in relation to competitors. Service-quality performance of competitive advantage is still the best solution in very important processes, the processes of attracting, retaining and returning customers. Performance and quality of services give superiority and presents the most concrete achievable competitive strategy not giving any chance to the competitors to copy them. If you put in parallel relation the quality-service performance and the production-quality performance, we will see that the service performance is far more difficult to manage, definition, measurement and consistent performance in relation to the production-quality performance. Many researchers who have very extensively defined countless strategic options relating to production-quality performance show this also, but all of these options cannot protect that performance from competitive copying (plagiarism, forgery of the original). Looking at specific services and successful marketing strategies it comes to a tabular view that provides a comparative overview of the contents of industrial services, professional services, wholesale services and telecommunications services, with their service strategies as well as the marketing support (table 3).

**Table 3:** Comparative Review of services - strategy - marketing support [5]

Service Title	Service strategy	Marketing support
1. Industrial services 2. Cleaning services	1. Accuracy and timeliness with which a service where the buyer remains surprised 2. Price: non priced level of service timely present during the whole week	1. The creation of ideas – new brands for the existing level of service in order to earn the consumers trust 2. Education of consumers about the service costs incurred
1. Professional services 2. Banking services	1. Logistic techniques and support 2. Real prices 3. Built relationship with banking service customers	1. Identification and development of strategic industrial portfolio 2. Promotion of specific banking companies 3. Help in the realization of the project competencies of sale services
1. Wholesale financial services 2. Credit insurance	1. Low prices of the entire financial structure 2. Respect of the needs of the modern consumer 3. Modern technology in finances, support in retail	1. Newspapers in the range of financial services in wholesale 2. Raising business awareness and market shares to the new (higher) level 3. Permanent orientation towards the customer
1. Telecommunication services 2. Sale of services of telecommunication	1. Pointing towards the target market 2. Optimization of the marketing mix of services 3. permanent Trade presence	1. Branding Services 2. Contacts with customers 3. Analytics on the market of telecommunications services

## 5. MODELING OF SERVICE MANAGEMENT

In the focus of the principles of service management, if compared with the traditional approach to management, according to Grönroos [5], there are two basic changes: the first refers to the transfer of interest for internal effects toward interests for external consequences. The other change goes from the focus of structure to the focus of processes. Successful implementation of service strategy requires appreciation of both.

According to most researchers, it has noticed and also indicated that the service products or packages are used for the consumer, insufficient and too narrowly defined. It can be said with a high dose of security, that the production or functional perspectives ignore most basic principles of service management. Note also that many people believe that the business of providing management services and conduct similar to training and managing a sports team or directing a theater piece [11].

Exaggerated functional or productive approach may lead to a decrease of service quality, which leads to a loss of service consumer - the number of consumers. Therefore, it is necessary to consistently implement the concept based on the permanent implementation of the principles of service management.

The fall of the quality of services requires that the first changes based on the principles of service activities, a switch be made to the management with full efficiency, i.e. the rejection of the organizational structure that was based on a strategy of internal efficiency. Complete performance management, has always in mind that only the consumer perception of quality leads to profit. All activities related to customer satisfaction and productivity of labor and capital must be fully integrated.

Level of authority for decision making must be decentralized as much as possible, bearing in mind the organizational interface between organizations and consumers. Decentralization - the transfer of power must not point to the defined strategic decisions made at a higher level, but must point to the power of attorney that have operational character and whose efficiency depends on the fulfillment of strategic goals. You must work in such a way to mobilize resources to support front line of servicing. The first and often necessary step in this process is a *delivering* (layering organization), i.e. the elimination of unnecessary levels of decision-making.

Activities of a manager must be oriented in the direction that will lead to a significant degree of counter-bureaucracy of organizations as well as wholeheartedly encouragement and support of employees. Special attention should be paid to the system of compensation as very important and a very sensitive factor in providing quality service that is perceived by consumers. However, all relevant aspects of service quality are also related to rewarding employees, although they are not the only ones affecting the quality. The degree of satisfaction of consumers and achieved quality of services must be subject of continuous measurement.

## 6. CONCLUSION

Most researches indicate that the service products or packages are used for consumers, insufficient and too narrowly defined, so that we can say that, the production perspective does not respect many of basic principles of service management. The emphasis in the first plan, the production approach may lead to a decline of service quality, which leads to the loss of service users - the number of consumers. Therefore, it is necessary to consistently implement the concept based on the continuous application of the principles of service management. Consistent application of the modalities of service strategy, the organization clearly highlights its key competence, which is bound to the offer of their services on the market. The focus of economic competition in the new world order is helpfully - quality performance based on a well-laid strategy that puts emphasis on the combination of quality and service. Such quality-service-winning combination shows how to apply the various domestic and global markets, using quality service performance in relation to the competitors.

Service-quality performance of competitive advantage is still the best solution in very important processes, the processes of attracting, retaining and creating loyal customers. Performance of services and quality gives superiority and present a concrete achievable competitive strategy. If you put in parallel relation service-quality performance and production-quality performance, we will notice that the service performance is far more difficult to manage, definition, measurement and consistent performance in relation to production-quality performance.

The prospect of service management is all the more successful orientation towards realizing the full benefits that arises in relations with the customers. It should be noted that short-term transactions gives more space to long-term relations between consumers and organizations.

Consumers have previously evaluated the quality of products or services, and today it is increasingly emphasizes the importance of total or complete quality, who is perceived (perceive) and evaluated by the solo consumer. So there is a shift from the production of technical solutions (technical quality of the goods or services) as a key solution in the organization, to the development of the full benefit or complete quality as a crucial process.

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## COMPANY MANAGEMENT AND SYNDICATE IN CRISIS

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***Summary:** This paper will show us how to recognize the causes of the crisis, and how to deal with them. We will also point out the most frequent mistakes of the managers in crisis situations. The getting out of the crisis will be described in a few phases: organizing during the crisis, motivation during crisis, the stabilization period of the company and the phase of companies' comeback.*

***Keywords:** management, organization, business system, crisis.*

### 1. INTRODUCTION

Most of organizations that operate for a longer period of time fall into a crisis situation. In large business systems, at least some part of the system is almost always in the operation crisis, especially in modern times, when the situation in our country is not at an enviable level. Today, in our country there is often the situation that receivership is set in some organizations, i.e. the receiver managers- people that should bring the organization to the normal business flows. Many of them do not succeed in such a situation of taking the organization out at the right way, i.e. to take it out of the crisis. Those managers meet with multitude problems about which, unfortunately, they cannot learn a lot because there aren't many companion papers where answers could be found to the questions posed before them, which are basically related to how to "get the organization well"? They usually do it intuitively or on the basis of the acquired practice. In this paper, special attention will be paid to the ways in which some organization can get out of the crisis, but this paper could also be a guide to some managers to predict a crisis in the organization as well as to prevent its emergence. Managing in crisis situations is a special kind of managing. In such situations, decisions must be made fast. If the manager even makes the mistake, he/she must move on, there is no time for him/her changing the concept. Under normal conditions, managers have several goals, for example, the production growth, the production enhancement, etc. In crisis situations, managers have but one primary goal, which is to realize the economic result; other goals at the moment are not that important and they have to wait to be realized. Some procedures of management in crisis situations are completely opposite to management procedures in normal systems. The first phase of managing systems under crisis is the struggle for survival. When managers succeed in it, then they can dedicate to normal development, expansion of production, etc. Crisis management demands special will and energy. When we have a man who has the will and energy to deal with the organization under crisis, we have to develop his/her self-confidence, and he/ she will solve the rest by the knowledge and extremely hard work. Naturally, for an exceptional manager talent is also necessary as well as for any other occupation.

### 2. WHAT ARE THE CAUSES OF CRISIS EMERGENCE IN BUSINESS OPERATION?

Crisis in business are often, however, any manager who has not experienced crisis, does not think ahead enough that it could also happen to his organization as well. There are four types of crisis that can act individually or in the combination with one another. They are: economic crisis, social crisis, management crisis and crisis caused by legal system [1, pg. 35]. For an economic crisis the characteristic situation is when the organization is not capable of settling its obligations. The economic crisis can follow a single organization or a whole branch. If it is about the branch, the organizations having the worst business results in the branch are in a true crisis. Each

economic crisis draws with itself a greater or minor social crisis. A healthy environment influences on elimination, i.e. the downfall of the organizations wherein social or economic crisis are present. The crisis of management mostly precedes economic and social crisis. If an organization for several years in a row shows weaker results, the management is in crisis and in such organizations the management change cannot be wrong. The legal cause of crisis implies the situation where the organization has to be liquidated from legal reasons, e.g., the activity prohibition, association according to the power of the law and similar.

### **3. CRISIS' OMENS**

There are organizations existing for decades with their survival never being doubted. They achieve that owing to the management that duly perceives the crisis omens and undertakes measures for alleviating or preventing it. It is clear that occasionally every organization is threatened by a crisis that can bring its survival into question. Crisis mainly comes up at transition of an organization from one development phase into another. The transition into each of the new levels is extremely difficult and can cause great organizational problems, because each dimension demands different organization and relations. The manager leading an organization at the beginning of its operations does not mean that he/she is a good manager of the organization in development. Specialists are necessary for the organization development. That is why the transition from one development phase into another is usually the crisis period. In each new phase of development of an organization, autonomy is necessary. The managers at the top of the organization think that they are losing control over the segments, and single managers of autonomous units are not capable of managing the autonomous units. In this phase, formal procedures of organization and control are necessary. The entities not developing it come into crisis. Business is regulated by internal organization and own powers, because experience have shown that the internal reasons for bad business are the dominating ones. Crisis mostly emerges when the ambience factors are spotted too late.

### **4. MANAGERS' MISTAKES MOSTLY LEADING THE ORGANIZATION INTO THE CRISIS**

The most frequent mistakes that managers make and that could lead the organization into the crisis are the following: neglecting of changes at the market, weak control of expenses and business results, bad realization of investments or poorly planned development and reliance on credits to a greater extent than the business can bear [1, pg. 38]. We know that market is constantly changing and accordingly it is not enough to plan only production, but it is necessary to track the changes at the market (the product, competition, new technologies, prices, reserves, etc.), and only after and based on it, to plan the volume and structure of the production so that the organization is successful. The second, equally important issue for an organization is that the managers should at any moment have necessary information on the costs and results of the operations. Certainly, the organization's development in itself should be controlled as well and ensuring that the investments do not exceed the possibilities of the organization.

### **5. ORGANIZATION OF COMING OUT OF THE CRISIS**

We know that, when an organization is in crisis, the market position is very bad, the business partners have lost their trust in the organization and its managers, and usually the work ethics of the employees has also decreased. The management appointed to promote business should stop the losses, retrieve the work ethics of the employees, increase the production and sale, regain the buyer's and suppliers' trust and, finally, to create conditions for the organization to develop and grow. If crisis is discovered early and if the managers undertake the changing actions, the coming out of the crisis is usually secured. Advancement of the business of the organization in crisis implies CHANGES [2, pg. 34]. They relate to the management, system of work, organization, products, technology, costs, etc.

Management must adjust to the ambient changes, it must not be relaxed, on the contrary, such place should be left to some tougher team that will introduce better control over business and a suitable philosophy of the organization. When an organization falls into crisis, the problem is only solved by a different approach to the whole business system, business policy and philosophy. There are situations where the turnabout can be accomplished if main activities are dedicated to strengthening of competitive capabilities, hence not changing the programs, extreme discipline, labour force decrease, but special measures for strengthening the market position. There are also situations of production program changing, but they are rarely applied; only in the case of complete abundance of some product by the market, or complete change of technology as the substitutes' result.

This change is highly expensive, demands longer period of time for its realization, and also necessary is a great knowledge in the area of investing in and development of the new product.

## **6. MOTIVATING DURING CRISIS**

Motivating workers in the organization that is already in the crisis is a difficult job. In such organization, lots of workers present the labour force surplus. However, the organization cannot come out of the crisis unless those activities on which losses occur or which complicate its business are cancelled. But, in order that the organization would come out of the crisis, it is necessary that the workers believe in its prosperity and are motivated to work. In the period of demoralization of workers, i.e. when the organization is operating with the loss, the people are occupied by themselves. In a loosing company, there is no work ethics. Thus, a bad organization becomes worse each day. However, when a new manager comes, good staff immediately think on the possibility of turnabout and wish to stay, to prove themselves. Employees should be acquainted and informed what is expected of them. When the idlers and surplus are cleared up with, as soon as the business in the organization starts moving forward, the employees' motivation is present. Once the culture of work and success is generated, we have created the dedication to work and the organization. Therefore, the manager undertaking this responsibility has to be strict and consequent manager. The manager has to lead people by setting himself as the example, has to work more than others and has to constantly have the goal before him.

## **7. BUSINESS STABILIZATION PERIOD**

The stable period for an organization is when it is leaded into the state of permanent profitable business and when all activities are evolving according to a certain system enabling it [2, pg. 97]. Thus, the first phase is struggling for survival and liquidity, and it achieved, the constant improvement of economic operation is tended to. Maintaining the organization liquid, we are now doing everything to settle the debts, non-current reserves and similar. That is the goal of financial policy of the organization in crisis. When discussing an operative management, we rely on management on the basis of a system. Meaning that, instead of single decrease of costs, we rather promote sale, etc. Herein we develop and introduce the system in every function. We manage on the basis of plans and organization of work. The next thing to be done is to make an order according to the documents, to arrange the documents, introduce the stadium of work into practice and constantly work on the work study methods, strictly stating them in all domains of work and in production. A powerful department for quality should be formed immediately and conduct an action for education, quality and productivity. The basis of work in stabilization period is creating awareness at the own managers and executives, that improvement of efficiency and profitability is a constant work that has no end, that the essence of the total business is in accomplishing economic results and that everyone has to work always on that problem. The staff that cannot accept the new methods of work, should be transferred, trained or dismissed, and then we should employ new key people for introducing the system requiring special knowledge. In the stabilization period, the systems for business operations from supply, through production and to sale and distribution should be constructed, and from the construction and technology to maintenance, all of it for the purpose of efficacy. With regards to the ambient, a new reputation should be created for the company, compared with it and become competitive and provide quality in delivery terms and price.

## **8. GROWTH AND DEVELOPMENT COMEBACK PERIOD**

The crisis recovery usually lasts longer than it seems to the one who has leaded the organization, after the losses, into positive business. So that the organization would start to grow and develop further, detailed and patient preparations are necessary. Always after crisis, the growth must start by increasing the existing capacities. What the marketing should achieve is to provide the placement growth, the growth of the total income and profit. Here, an appropriate products' mix should be discovered, include new and innovation products, increase propaganda, provide sale per prices enabling suitable profit, etc.

## **9. CONCLUSION**

Long lasting, serious and unpredictable effects of the global crisis ask for a rational and urgent choice of strategic options for surviving. Meaning that all the options in which a company can be found in from the point of view of all inputs are seriously, systematically and openly re-examined- the challenges of organizing the

production process and especially of the placement, purchase, collection and prediction of possible behaviour of the potential buyers and consumers. Making the turnabout in a company's business and managing it in the period of crisis is a highly difficult task. It requires special skills and special energy of the manager. The methods applied in crisis situations in business are necessary to us even when we are operating well. That is why their cognition is necessary to any manager.

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## THE ROLE OF MANAGEMENT AND UNIONS IN RESOLVING CRISIS

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**Summary:** *The crisis appears as extraordinary state in society. The causes of the crisis can be different: social, natural, technical - technological, biological - such as epidemics. While the crisis appears as a possible situation in which normal - regular forces, means, measures and methods can not solve existing problems, so there is great damage and casualties. Crisis occurs in the overall economy, globally speaking, but, in accordance with this, the company carries on business, achieving results. Key role in these circumstances have the management and employees. Large companies are much more hit by the crisis, and in these moments, they especially engage workers, unions and management.*

**Key words:** *management, union, business process, crisis.*

### 1. INTRODUCTION

This paper aims to show the importance and role of management and unions in the processes of crisis. Emphasis is placed on the crisis in the company, therefore the microlevel of management. The point is to show that the role of management and workers and trade unions in resolving the crisis situation the company.

The first part of the paper gives the basic features of what's considered a crisis, then analyzes the causes of the crisis, and possible strategies for overcoming crisis situations, the importance and role of management in crisis situations and the role that unions realize.

The crisis may occur in various forms, and therefore there is no generally accepted definition of crisis. Generally a crisis can be defined as unscheduled and undesirable process that takes some time, and that can only be partially affected, so it can end in various ways [Ašanin Gole, 1998).

So, the crisis is one circumstance in which the organization can no longer operate normally. It threatens the ability of organization's survival, prevents the achievement of goals, and very survival of the organization. Although at first glance it may look that there is no crisis of so dramatic proportions, its negative impact on the image of the organization can be very large and may endanger subsequent long-term survival [4].

In the area of organizational media relations crises is often connected with the "unexpectedly bad publicity." Often, just the negative reporting in the media can "bury" the company or organization, even worse than the damage caused by the crisis. Some even believe that the crisis comes only when the media, state institutions and influential group of people declare crisis.

Therefore, during crisis situations special attention should be paid to communication with the public, especially with the media, which may require more time and preparation than the crisis itself.

As much as the crisis was bad for the given company, it is in some way change in the life of the organization and also the opportunity to build a better image. It is an excellent opportunity for the management of a company to change the way of thinking, introduce the necessary organizational changes, "refresh" conduct, establish new sectors, make a revision of roles and responsibilities of members of the administration, improve the control and introduce a new organizational culture. Therefore, the crisis also represents a danger and an opportunity.

## **2. CAUSES OF CRISIS IN THE COMPANY**

Simply put, the crisis of the company exists when it can not perform its financial obligations in a given time period [for example period of three months), which might be named the financial crisis, which is the most frequent in our circumstances.

In periods of crisis, it is necessary to form a Crisis Management. Crisis management or crisis control can be defined as a specific way of managing the company whose task is to master the processes that may threaten the future survival of the company.

For easier understanding, it is important to say what is considered the causes of the crisis. The same can be divided in [7, pp. 258]:

- External - outer and
- Internal - interior causes of the crisis.

### **2.1. The external (outer) causes**

They occur outside the organization, and the organization has no significant impact on them. These include [4, pp. 49]:

- Changes in the market
- Changes in the industry
- General economic crisis
- Political changes
- Changes in legislation
- Natural disasters...

### **2.2. Internal causes**

Often the crisis are "hidden" in the organization itself. For example [4, pp. 55]:

- Inadequate qualifications of management or executives,
- Incompetence of management or executives,
- Immorality of management or executives,
- Disparagement of public opinion,
- Poor operation of management functions,
- Unrealistic goals of unions in enterprises,
- Underdeveloped communication, poor organization in communication - ineffective communication structure,
- Poor organizational culture,
- Dissatisfaction with workers,
- Lack of motivation of workers,
- Poor organization of work,
- The creation of informal groups with different attitudes,
- Bad mutual relations in the workplace...

All the company said and done in a crisis can have long-term impact on business operations and the identity of the company in the public.

## **3. MANAGEMENT IN RESOLVING CRISIS**

Generally, management can be defined as administration. Today's business enterprises are characterized by constant turbulence, and in accordance with this companies need to adapt their business to the variable environment [3]. Therefore, it is necessary for management to adjust themselves, everything in order to find the best results.

After the company came to a crisis situation, after understanding the real state, then, the crucial role is given to the management of the company. Management of the company should define the crisis situation, causes and symptoms of the same and try to find ways to get out of the crisis.

Crisis management means a systematic approach to crisis situations. It includes identification and analysis of crisis situations and develop a strategy if it is not included in risk management, and for overcoming the crisis and the introduction of monitoring against measures.

The concept of crisis management has two meanings:

- In the institutional sense it includes all people who are trusted the shareholders or by the force of law to lead or spend a relief of crisis in the company;

- In functional sense it presents the leadership or the management of the company that aims to bring the company out of the crisis and make it able to survive in the long term.

Crisis management should remove the acute "danger to the life company", and rehabilitation should provide, improve and preserve the ability to survive in the long term (long-term ability to survive).

Management and unions have a key role in resolving the crisis, or the rehabilitation from the crisis.

### **3.1. Grounds for rehabilitation, importance and the crisis management activities**

The key role of management in crisis situations is to define a space for rehabilitation and programs for exiting from the crisis. It is necessary to adapt to emerging business conditions. Rehabilitation of a business enterprise that is visible not to succeed won't have special effects, and is not worthy. Before the start of rehabilitation is necessary to ask and give answers to some questions [8]:

- Whether the company is capable of rehabilitation and
- Whether the company is worthy of rehabilitation.

In case that some of the responses is negative, it is necessary to negotiate with the sanction holders of these activities and to seek answers, such as [10, pp. 196]:

- Investment/divestiture,
- Changes in leadership,
- Cleaning of the old charges, obligations,
- Provision of guarantees, etc.

In the event that these measures are not sufficient we always have a final step possible, the sale of the company. In order to respond to questions, it is necessary to make the analysis of the company and analysis of the causes of the crisis. The aim of the analysis is to discover under what circumstances it is possible to have a successful implementation of reconstruction.

Process and business of crisis management does not begin at the hour in which the problem (the crisis of the company) objectively occurs but only when being observed as such by the competent authority in the company, and sometimes even by other (banks, customers, suppliers, etc). The non-timely identification of the crisis in the company, narrows the maneuvering space of successful crisis management due to not using the maneuvering capabilities over time.

Important points for successful rehabilitation of the crisis can be qualified as the following [5]:

- Sensful observation of motion of events that threaten the existence of enterprise. Management should be able to comprehend the crisis situation and initiate the feature recognition or symptoms of the crisis are becoming clearer all the time, so that gradually decreases sensitivity necessary to recognize these symptoms of crisis;
- Identifying the crisis as such. Numerous reasons can lead to the importance of the symptoms of the crisis assessment and wrong not to realize all the seriousness of the actual situation. Changes in the liquidity of the company give reason to the leadership to initiate actions;
- The "classic" symptoms of acute crisis in companies are considered to be delays in payment, which in the extreme case manifest in indebtedness or insolvency, which lead the company into bankruptcy;
- Causes of the crisis lie generally not in the sphere of success/finance companies, but they should be sought in all these areas of risk.

It is even more difficult than the analysis of the causes to make analysis and particularly a forecast of specific effects of the crisis in order to complement the assessment of the remaining chances of future success of the company.

In my opinion, management should proceed, or organize their activities in the following way:

- Rough analysis of the situation;
- Detailed analysis of the situation;
- Determining the objectives of rehabilitation;
- Formulation of rehabilitation strategies;
- Rehabilitation measures;
- Rehabilitation programs.

### **3.3. The concept of union**

Union is a permanent and mass organizations of the working class and socio - economic organization of the working class. Union has an important role in the development of labor relations, labor law, and primarily in the position and role of the working class. Unions are formed from early forms of capitalism through a series of association of workers of the organizations for mutual assistance to union industry and working class organizations. Development of unions follows changes in the socio - economic relations, which are still present [9].

Union is an organization created by the workers. Union can represent workers in a particular master industry or in particular factory, and is established to improve and maintain the salaries, benefits and working conditions. Unions are usually united in the Association of Unions and Union Centrals [11].

In many countries union may obtain the status of legal persons. Such unions have certain legal rights and powers, and most importantly the right of collective negotiations with employers to improve wages, working hours and other conditions of employment contract of the workers it represents which represents, which means that these things do not establish a unilateral government, but they are agreed upon by both sides. When unions have no such rights or options, they usually threaten with strike and other collective actions in order to make pressure on employers.

Unions can be involved in broader political and social groups, and in some countries they are closely linked with political parties. Unions often use their organizational strength to support social measures and laws that correspond to their members or workers in general.

Although their political structure and autonomy is very different from country to country, unions usually appoint their leadership through elections.

### **3.3.1. Union and crisis**

The first step in the beginning of the crisis is to reduce all costs and therefore the number of workers. In terms of crisis there comes to a general decrease in business activities of the company - it is less produced and sold, less income and profits are achieved ... In all this, the company requires basic manners and motives out of the crisis, seeks a way to survive and once again return to their original business trends.

It is generally known that the crisis workers rebel, because they have no regular income or they are decreased. Therefore, they regularly go into strikes. Sometimes it can be a good circumstance, but however, is it really so? Are the strikes always justifiable? Is the layoff always justifiable?

I think not. I think that in our circumstances, there is no adequate means of communication between management, executives and the workers. Workers are always the ones who are subordinates, who in these situations have significant voting rights. Also, I think that if we explored more deeply and entered the psychology of workers, we would see how they are committed to the organization, how they are connected to it and how they want it to survive longer and proceeds better.

## **4. CONCLUSION**

The crisis is every appearance of supporting companies. It is particularly important in today's age because of the reason the recession is "overflowed" from country to country, and then, actually understand how the whole world is connected and how the world is truly a "global village".

Today we are witnessing numerical decline of companies in our area. Reasons for this are many - recession, privatization of enterprises, incompetence, confrontation with a new way of work and business ... However, is every crisis the end of companies, or identifying something new? I will represent the second attitude!

From every circumstance, from every business, every situation there is always something new which later brings benefits. Management and unions as especially organized in situations of crisis, should show their essence and reasons for existence. This is because it is easy to operate so that all is "going well", however, the essence of business is to overcome all obstacles, all difficulties, deal and cope with the same.

Management and unions, as could be seen from the presentation, should join forces to cope with the crisis. This is the way for management to set strategy, identify the sources of crisis, determine steps to overcome the crisis. On the other hand, workers with unions at the helm, should actively participate in these steps, to accept the novelties, the same adjust and together contribute to the solution of the crisis.

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## WORLD BANKING GROUP

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***Summary:** World banking group with its five institutions (IBRD, IDA, IFC, MIGA, ICSID), which are owned by 184 countries of the world is one of the largest financing sources of developing countries. Its main aim is to help poor people in poor countries by using its financial resources, personnel and its enormous experience. In modern world, which is very rich and very poor at the same time the challenge to decrease poverty is enormous. World Bank works on overriding those differences by helping governments of the member countries in their efforts to invest in education and health centers, provide water and electric power, and in struggle to fight diseases as HIV and malaria and in environment protection.*

***Key words:** World Bank, IBRD, IDA, IFC, MIGA, ICSID.*

### 1. INTRODUCTION

We live in the world that is so rich that global income values more than 31 trillion of dollars a year. In this world, an average person in some countries earns more than 40 000 dollars a year. But in the same world, 2,8 billion people – more than a half population in developing countries, live on 700dollars a year. 1.2 billion of these people earns less than 1 dollar a day.

In developing countries 33000 children dies every day as a result of this condition. In these countries, a woman in labor dies each minute. Poverty prevents more than 100 million children, mostly girls, to go to school. The challenge to improve this condition is enormous, especially bearing in mind that world population is constantly growing; 3 billion people increase is expected in the following 50 years.

World Bank works on overriding these differences and making rich countries income means of development for poor countries. World Bank, as one of the biggest sources of help for developing countries, supports efforts of developing country governments in building schools and health institutions, enabling drinking water and electric power, fight against infectious diseases and environment protection [6].

During year 2002. World Bank enabled 19, 5 billion of dollars of help and was active in more than 100 developing countries by offering financial and technical support for purposes of helping these countries to decrease poverty.

### 2. ORGANIZATION [8]

World Bank was established on 1st of July, 1944. at the conference of 44 governments in Breton Woods, un New Hampshire, USA, as an International Bank for Reconstruction and Development. When it first started to function it had 38 countries as members. This number suddenly grew in 50s and 60s of the last century when a large number of states gained its independence and joined the World Bank.

World Bank is a corporation with its 184 member countries and stockholders. Stockholders are represented by Governor Board, which is the main creator of World Bank Politics. Generally seen, governors are if fact Ministers of finance, and ministers of development for developing countries. They meet once a year, at the annual meeting of World Banking Group Governor Board, and International Monetary Fund.

Because governor meetings are rare, once a year, they delegate their specific duties to 24 Executive managers, working at the premises of the bank itself. Five of its largest stockholders (France, Germany, Japan, The United

Kingdom and The United States) place their five executives, while other member countries supply remaining 19 executives.

World Bank President, Paul Wolfowitz, presides Executive Manager Board meetings, and is responsible for total management of the bank. Traditionally, bank president is nominated by the largest stockholder, The USA. The President chooses governor Board, for the five year period, with a possibility of repeated mandate.

Executive Managers of the Managing Board meet at least twice a week, to overview banking business, including approvals for loans and guarantees, new banking politics, administrative budget, helping countries strategy, loans and financial decisions.

The Bank functions under the leadership and instructions of the President, management, senior staff and vice president responsible for regions, sectors, networks and functions. Vice presidents are leading managers of the World Bank. (See enclosure 1)

Around 10000 experts for development from almost all the countries of the world work in the World Bank Center in Washington, or in its offices in 109 countries (7000 work in Washington, and over 3000 in the offices of developing countries). World Bank staff is multidisciplinary and includes economists, educators, environment experts, finance analysts, anthropologist, engineers and many others.

### **3. WORLD BANKING GROUP [7]**

The expression "World Bank" refers to two institutions - The International Bank for Reconstruction and Development – IBRD and The International Development Association – IDA.

World banking group is composed of three organizations, also owned by member countries apart from IBRD and IDA. The International Finance Corporation – IFC promotes private sector investments giving support to areas and countries of high risk. The Multilateral Investment Guarantee Agency – MIGA is an agency for guaranteeing investments.

It secures guarantees from political risks to all who invest their money in developing countries and to those who give loans to those countries. Finally, The International Centre for Settlement of Investment Disputes – ICSID is responsible for settling investment disputes of foreign investors and their host countries. Each of these institutions has a clear role in the mission of fighting against poverty and improving life standard of developing countries population.

### **4. THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) [7]**

It was established in 1945, total number of member countries – 184, total loan value so far: 360 billion of dollars. Loans in fiscal year 2005. 13.6 billion dollars for 118 new projects in 37 countries. IBRD is aimed at poverty decrease in countries with medium income and poor countries where loans are profitable, thus helping their development through loans, guarantees, and non-financial – analytic and advice giving services. IBRD does not increase its income until the upper limits but has earned net income each year starting from 1948. Thanks to its income it finances a few developing activities and enables financial power which enables it to give low interest rate loans at money market and good conditions of payment for its clients. Countries that get loans from IBRD have a longer period of debt payment than if they would take loans from commercial banks (15 to 20 years with 3 to 5 years grace period). Governments of these countries borrow money for specific programme, focused on poverty decrease and economic development which would enable better life conditions to these countries population. Considering the fact that IBRD is owned by member countries, the power of decision making is closely related to financial contributions, which are based on relative economic strength of each of the member countries.

Loans of IBRD to developing countries are financed by selling AAA ranked stocks at world financial market. While IBRD earns less out of these loans, a larger part of income is gathered from lending its capital. This capital consists of reserves gathering during the years.

### **5. THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) [8]**

It was established in 1960, total number of member countries – 165, total loan value so far: 135 billion of dollars. Loans in fiscal year 2005. 8.7 billion dollars for 160 new projects in 66 countries. Contributions that IDA gets enable the World Bank to approve 6-7 billion of interest rate free loans a year for 78 poor countries of the world with a population of 2.5 billion. This help is of vital importance because these countries have little or no

possibility at all of borrowing under market circumstances (The World Bank enables them loans and credits which are returned interest free, with payment period of 35 to 40 years with grace period of 10 years). In most of these countries average income per a person is less than 500 dollars a year, and many more survive with less amount of money. IDA helps with providing better life services (as education, health protection, pure water and sanitary protection) and supports reforms and investments planned for productivity increase and employment.

## **6. THE INTERNATIONAL FINANCE CORPORATION (IFC) [2]**

Established in 1956, 178 country members, Total value of stock: 21.6 billion of dollars, (including 6.5 billion dollars in regular loans) Investments in fiscal year 2005: 5.4 billion of dollars for 236 projects in 67 countries. This corporation mandate is to improve economic development through private sector. By functioning with business partners it invests in profitable private companies in developing countries, enables long lasting loans and guarantees, and offers advice services to its clients [2].

## **7. THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA) [3]**

Established in 1988, 165 member countries, total guarantees so far: 10.34 billion of dollars, Issued guarantees in fiscal year 2005 1.2 billion of dollars. MIGA helps with enforcing foreign investments in developing countries by offering guarantees to foreign investors for possible loses taken by non-commercial risks, as expropriation, nonconvertible currencies, money transfer restrictions, war, civil war, etc. Apart from this MIGA offers technical support to these countries for expanding information on investment possibilities. This agency offers mitigation in investment conflicts [3].

## **8. THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES (ICSID)**

Established in 1966, member countries 142, total number of registered cases: 103, registered cases in fiscal year 2005: 25. ICSID helps with encouraging foreign investments by supplying international funds for leveling and arbitrage in investment disputes, thus helping to build an atmosphere of mutual trust among countries and foreign investors.

Many international deals connected to investments are achieved by help of ICSID arbitrage means. This centre also performs researches and makes regulations on arbitrage and foreign investments [5].

7<http://siteresources.worldbank.org/EXTABOUTUS/Resources/wbgroupbrochure-en.pdf> (access date 15.12.2006.)

## **9. CONCLUSION**

World Bank Group is one of the largest financial resources for initiating economic development. It is the largest contributor to world's funds which is used to improve education and health programme realization. It is organized as world stock company in which countries have their shares. In order for a country to be a member of the World Bank there is a condition to fulfill, and that is membership of MMF first.

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## CONSUMPTION BUDGET FUNDS AND ECONOMIC CRISIS

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***Summary:** Consideration of issues of public sector and its impact on the overall economic trends is always a current issue, and especially during the world economic crisis. It is clear that the public sector availability necessity, as well as its restructuring with the aim of finding model function. Large public companies in Serbia operate with losses, which imposes the necessity of rapid privatization. It is interesting to question what the world trends in this area because the budget spending has a large impact on the socio-economic development each state. Defense system, as a constituent element of the public sector requires a constant source of financing, which is manifested through the budget, as a financial institution. It is necessary to reducing the percentage of military expenditures in the budget the total budget, and with the economic strengthening of the state, increasing the nominal amount of the military part of the budget.*

***Keywords:** consumption, budget, Tax avoidance and tax evasion of taxes, public sector, the economic crisis.*

### 1. INTRODUCTION

Funds for public consumption are provided from the budget, which, in essence, presents a binding plan of revenues and expenses during the year. It is expressed in money and will be granted in the absolute amount of dedicated tasks, which is determined by law and regulation. Spending for defense systems is an important part of overall public spending, financed through the budget of the republic and provides the realization of the goals of defense tasks.

When it comes to public revenue, they still have significant participation in the distribution of the total domestic product (45% -50%) and that in future it would be necessary to reduce it due to a faster economic growth, which would, ultimately, create prerequisites for the nominal increase of public spending, and thus the resources to defend the country.

### 2. BASIC PARAMETERS OF FISCAL POLICY UNTIL 2010

That year Finance Minister Mirko Cvetkovic in the Military Academy - School of National Defense, April 2008, emphasizes the fundamental directions of the fiscal adjustment:

reduce of public expenditure in GDP for at least 2-2.5 percentage points until 2010, maintaining the current revenue share in GDP, the establishment of balance in the consolidated balance sheet to the 2010th, the application of measures of the consolidated public spending, which grew to be realistic about 3% per year the next two years, and in case that the inflow of foreign capital is less than expected (3-4 billion euros per year), the preservation of macroeconomic stability would require faster and stronger reduction of public spending.

Also a macroeconomic framework by 2010 is given

**Main goals:** GDP growth rate of 6-7% per year, reducing the unemployment rate from 21% to 15 -17%, reducing inflation to the level of 4-6% in 2010th, reducing current account deficit from 16.8% in 2007 to 11% in 2010.

It was emphasized that a preliminary projection of expenditures for the defense of the 2010: it is being planned that the real level of defense expenditures from the budget in the next two years grows at an approximately same rate as GDP, i.e. 6-7% annually, while total public spending should grow 3% annually), the share of defense expenditure in GDP will remain unchanged, there are additional funds to defend the sale of military property, additional funds will be used for modernization.

Because of the impact of the global economic crisis we are facing a decline in GDP (up to 5% by the end of 2009). Concerning is the tendency of constant changes in structure of consumption, and the fact that the percentage decrease in consumption is much larger than the fall of GDP. Consumption of industrial products, decreased imports, essentially what provides significant tax revenue fell down. Consumption has fallen by 10 to 15%, which has crucially influenced the decline in tax revenues. Cumulative revenues in April and May decreased by about 10% compared to the first three months. The largest decline recorded just income from the VAT (15%), taxes on corporate profits (19%) and customs (32%). As the revenues from VAT and decreased the rate of 18%, this trend would continue with increased tax rates and higher rates of tax evasion should appear.

### 3. PUBLIC SECTOR AND ECONOMIC DEVELOPMENT IN STATE OF ECONOMIC CRISIS

Today, there are more and more state interventions, i.e., the state spreads national product, and takes various steps in the economy, not to participate only in distribution but also in the creation and redistribution of national product, imports, exports, etc. It is clear that the budget and budgetary policies have an important impact on economic trends in the state. Round - the level of income, expenditures and deficit countries significantly affect the speed of growth and macroeconomic stability and economic growth depends on the structure of public revenues and the structure of public spending:

- High taxes on labor and capital slow down economic growth,
- High level of public investment has a positive effect on economic growth.

Serbian public companies have produced losses over four billion euros and of that about 80% of waste EPS (200 billion, 110 billion Serbian Railways). Profit of the largest public companies (11) *Telecom, Airport, Post, Serbiagas, Transnafta, Serbiaforests, Serbiawaters, Ski resorts, Vojvodinaforests, Vojvodinawaters* is about four times smaller than the loss of six loss (*EPS, ZS, Resavica, Roads of Serbia, Jat Airways and NIS*).

World economic crisis imposed the need for **rationalizing the public sector**. In order to reduce the public sector to provide loans, to reduce taxes, provide subsidies, interest, etc. When the public sector began to make losses and require large subsidies and cover the losses of the state, it is decided to rationalize its policies. Limiting public sector, lowering taxes and reducing the regulative economic functions of the state it should ensure a wider space for private capital and private initiative.

In developed economies today certain processes are taking place, that lead to major structural changes in the functioning of economic systems. We are primarily thinking of privatization, which aims, the introduction of a market system based on competitive market and increase competition, with an increase in general and economic efficiency of the system, a faster exit from the crisis or prevent entry into the crisis. Exceptions are the United States where we have nationalization of big banks in order to rescue financial system.

In any case it is necessary to limit budget spending because:

- 1) Budget funds are mainly spent irrational and non-productive, and social benefits and costs (of the budget) are mainly non-balanced;
- 2) Lack of market motives leads to low productivity of labor;
- 3) Steady growth of the state apparatus leads to irrational and uneconomic employment;
- 4) Excessive budget spending relative to national income, especially the permanent budget deficit, leading to the spread of inflation; and
- 5) State does not encourage economic growth with budget expenditures.

Budgetary policy should primarily act in three directions: to maintain high rates of economic growth, employment and to ensure satisfactory stability of the general price level. One of the main objectives of budgetary and fiscal policy is achieving a stable price level, high rates of employment and economic growth. It is necessary, by active budget policy among other measures, to ensure efficient use of available resources, to prevent aggregation of unemployment, high inflation and other negative economic phenomena.

Serbian budget is in fiscal imbalances. Uneven economic development of economic conjuncture and economic activity is causing imbalance, so the lack of coverage of public expenditure in fiscal revenues has become phenomena in executing the budget.

Budget deficit should be reduced to the burden on giving to social welfare, pension and health insurance, military expenditures, environmental preservation, etc. On the other hand, large corporations and capital should be relieved of tax benefits. Therefore the monetary control should ensure the control of inflation, while tax cuts should encourage tendency to investment and increase the production.

Today, budget takes a very important part of national income, while it is almost impossible to balance public expenditures only by means of tax, or "regular" income. In terms of large oscillation it is not possible to cover even state operating expenses with corresponding tax revenues.

The budget is now placed in the function of general development and financial stability. The imbalance is accompanied by deficits and it is tied to the corresponding fluctuations of economic parameters.

**Table 1:** Consolidated balance of the public sector

<b>Consolidated public expenditures - functional classification in GDP percentage</b>					
	<b>2003.</b>	<b>2004.</b>	<b>2005.</b>	<b>2006.</b>	<b>2007.</b>
<b>Total expenditures</b>	<b>41,4</b>	<b>40,3</b>	<b>38,2</b>	<b>38,2</b>	<b>39,5</b>
<b>General public services</b>	3,2	3,5	3,0	3,1	3,1
<b>Defense</b>	2,9	2,8	2,4	2,4	2,4(1,7)
<b>Internal security</b>	2,8	2,7	2,4	2,5	2,5
<b>Economic business</b>	4,1	3,9	3,7	3,2	3,8
<b>Environment protection</b>	0,3	0,3	0,3	0,3	0,3
<b>Housing construction and utilities</b>	2,1	2,0	1,7	1,7	1,9
<b>Health</b>	6,0	6,3	6,1	5,9	6,2
<b>Recreation, culture, religion</b>	0,6	0,7	0,7	0,6	0,6
<b>Education</b>	3,5	3,2	3,2	3,8	4,1
<b>Social protection</b>	15,9	15,0	14,8	14,7	14,6

Public spending in Serbia is high compared to the level of development of the country, the share of GDP in Serbia is at the level of the countries of Central Europe, which are 50-100% more developed than Serbia, the largest position in its framework represent expenditures for social purposes, and within these expenditures for pensions, the structure is improved over previous years, the growth of disbursements for health and education, as well as the growth of public investment.

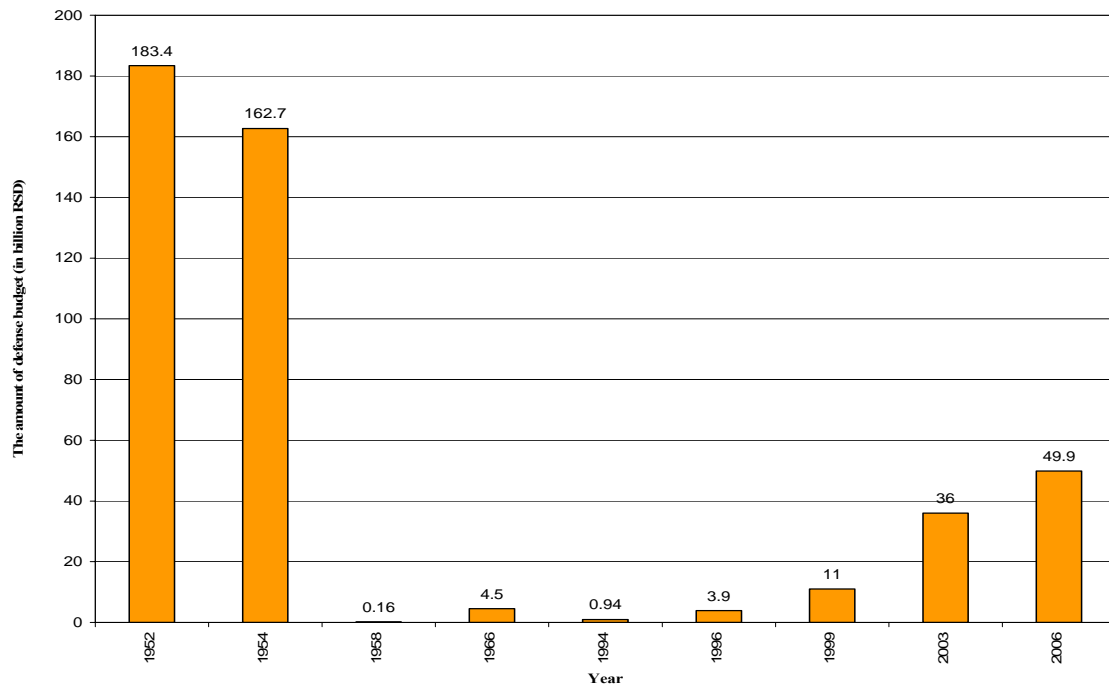
#### 4. MILITARY EXPENDITURE AND GDP CHARGE

According to the International Institute for Strategic Studies in London, in the world, on average, about 6% of GDP is taken out for the defense, and by individual countries, the percentage of allocations ranges from 1 to 30% for countries that are at war. Serbia stands for defense funds in accordance with financial possibilities and the security situation in the region. Army as a state institution is a significant consumer budget.

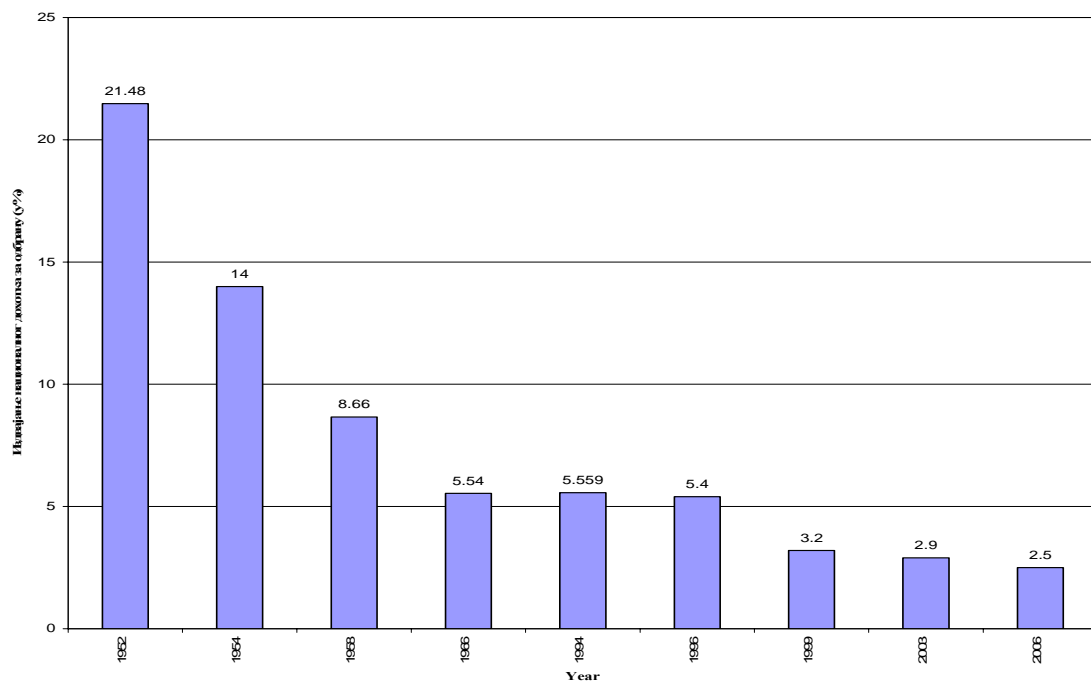
Flow of expenses for the defense in Serbia: the participation of defense expenditure in GDP for the past five years decreased from 2.9% (2.3% without pensions) to 2.4% (1.7% without pensions), the real level of expenditure for Defense increased by 6.3% in that period, the level of expenditure increased from 530.7 million in 2003 to 708.5 million euros in 2007. The disbursements for the defense in GDP in Serbia is in line with trends in the region, reducing the share of defense expenditure in GDP has created room for growth in share of expenditure in health, education and investment in infrastructure.

When we talk about the budgetary costs of defense, i.e. military budgets, we have an interesting situation. According to statistical data of AFP and SIPRI from 2005) the military budgets spend between 9.2 billion in Brazil and \$ 417.4 billion \$ in the U.S. (Russia 13.0, Germany 27.2, China 32.8, France 35.0, UK 37.1, Japan 46.9 billion \$). These are huge figures, which fall on the burden of the social product of national economies and their budget, which promulgates inflation, unemployment, budget deficit public debt with reversible effects on economic growth and private savings. In this part, we recorded a growing unemployment and rising public debt, despite the relatively successful overthrow of inflation and reducing budget deficit.

Since the end of the Second World War, Yugoslavia was pulled substantial funds for the defense. In **Figures 1** and **2** were extracted characteristic year: 1952, 1954, 1958, 1966, 1994, 1996, 1999, 2003 and 2006. Based on **Figure 1** we can conclude that the percentage of allocations of funds for defense continuously reduced, while **Figure 2** provides data that after year 2000 it came growth of funds (in nominal amount), allocated for defense. Defense expenditure in Serbia are about the same as in countries of similar level of development (Bulgaria Romania, Macedonia), are smaller than in Central Europe countries according to differences in the level of development as well as the percentage of GDP in the region, and equal amounts of about 2 % GDP.



**Figure 1: Percentage allocations for defense**



**Figure 2: Nominal spending on defense in Serbia (Yugoslavia)**

## 5. CONCLUSION

In these crisis times, when in the future we expect a significant reduction in government spending, it is necessary to find new solutions for optimization and cost control of budget funds.

Reducing military spending would ensure pre-allocation of financial assets in certain special programs, public infrastructure, education, research and development.



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## STATISTIC QUALITY CONTROL IN TEACHING PROCESS

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**Summary:** *The time we live in passes in the sign of fast development, especially in the sphere of information and communication technologies. The need for knowledge is increasing and it will continue that way. In order to follow that need, institutions for higher education will much more look like a "river" of knowledge. As a consequence of globalization, in the unique world market, products which can be used anywhere and which are of equal quality are needed. Market like that needs people capable of doing jobs for which they are educated, equally well on every part of the world and (in the same time) people who are willing to learn all their lives because education is continuous. Educational system must adapt to the demands that are set up in front of it. A degree should be the certification of knowledge and skills gained during the studies, which will enable people to work in new circumstances and be the basis for their further improvement. Like in every teaching situation there are three groups of situation factors: factors which we can manage well, factors which we can partially manage and factors which are above our managerial capabilities and control, it necessary to identify them, rank them according to the meaning and by using SQC (Statistic quality control) and other methods eliminate them.*

**Key words:** Learning, control cards, educational process, variations, SQC.

### 1. INTRODUCTION

In university education statistic methods can be used during the analysis of needs for knowledge and during the creation and improvement of curriculums, monitoring educational processes; establishing quality levels or quality plans; evaluation of results in educational process; analysis of numerous data which are created in university or in any way are related to university. I have particularly paid attention to the process of acquiring knowledge, i.e. the TEACHING---LEARNING line.

The university system can be defined as a group of interconnected processes and sources used in order to achieve objectivity in university education. Improving the quality of education is essential goal of every professor in educational institutions. Concept of self-evaluation, constant improvement and evaluation of results, in academic environment is very important. Total Quality Management, which as a philosophy of management demands involvement and dedication of employees in improving the quality of goods and services essential to users, can be the means for achieving that goal.

Student's knowledge and abilities represent the product of this system which we would like to measure and improve. That is why the quality of student's education can be defined as his ability to satisfy employer's needs and expectations.

Student's knowledge is created through teaching process and learning process. Students come to the first year of university studies with the basic knowledge of art and science (that they previously applied for).

Programs usually consist of 4-5 (3-6) years of studies. Final product i.e. knowledge, depends of the knowledge and understanding of the teaching course.

Courses consist of small number of smaller parts such as lectures, practices, laboratory experiments and projects, which give student's knowledge and skills a new dimension.

Courses and their parts are used by professors to build up a specific knowledge and abilities with students, and that's why they represent a technology that products are made with.

In order to prove that newly acquired knowledge and abilities suit the specifications, professor conducts control during the process, through homework, tests, quizzes and projects. This control usually precede the final exam which confirms that a student gained appropriate knowledge and abilities, which he will need in order to pursue further education, work. In the level of program, final control is analogue to graduation.

Employers, that is society in the whole, as users of student's knowledge, determine the quality of products and represent the market in which the University places its product.

The advantage of University, which for its final product has graduated students, is that its graduated student can give useful feedback to lecturers and based on that they can improve educational process. This can be done in the way that the feedback is obtained from the students on regular basis as often as possible, and it can be used in practice.

## 2. QUALITY CONTROL-MANAGEMENT DURING THE PROCESS

How can we establish that a student made progress if we don't have any data to confirm that?

The need for systematic approach is evident.

The first step is gathering data and survey enables that.

This simple statistic method is extremely useful for fast and simple gathering data and it is applicable in all processes which exist in University.

It can help us improve teaching process by giving us information, which with careful analysis can show us possible oversights in teaching-learning process or in organization of teaching, as well as the places in the process that we need to react to, in order to prevent of abate consequences.

On Scheyer institute for Teaching Excellence [14] with short e-mail research, which was sent to CELT, lecturers in big groups were contacted and asked if they have ever used any kind of fast, snap mechanisms for gathering data about courses they teach and if they have how and why.

Dr Šuhart [13] recognized that changes (variations) exist in every process and they can occur because natural and unnatural causes.

If only natural causes of variations were present in the process, the process would be stable in time, i.e. results would fluctuate by chance around steady mean, and the size of those variations would be stable and shouldn't influence the process, in the contrary variations could increase.

Unnatural ones (special, artificial) such as man, machines, errors on tools, measuring statistics of a process, show instability in time. Thus, the causes that we are familiar with, we can eliminate.

Between those two sources of variations, natural and unnatural, Suhart introduced control cards. In the article control cards are used for attributive evaluation (or control cards of discrete characteristics), where, during the control of learning process, it is enough to mark results with "good-bad".

They are used to make differences and to establish what they are. Statistics is drawn on the card which has three lines: expected value of statistics ( $\mu$ ), upper margin (UCL) and lower margin (LCL).

Control margins are calculated as  $\mu \pm 3\delta$ , where  $\delta$  is a standard deviation of statistics. The use of number 3 in calculation is a margin empirically justified. Statistics is measured on certain sub-groups, samples, in time and it is drawn on  $v$ , and appropriate sub-group on  $\chi$ .

Teaching staff is faced with variations in students' knowledge and skills, from the beginning of their profession. In average class professor expects to meet excellent students, good students and those who are not so good. Dream of every teacher is to have a class where all students will learn everything he teaches. However, there are no two students who are the same. This is called variation.

Different schools solved the problem of variation in different ways. Some set entrance standards for students (entrance exams, etc.), others made flexible programs to suit all students' abilities. Percentage of employed students, students' satisfaction, students' reputation, all these parameters depend on variations in this process on the teaching-learning line.

How can a professor decrease variation and eliminate artificial causes which can occur in a process? One way is to use control cards in three most often parts in learning process: teaching in classrooms, laboratories and tutorials.

## 3. QUALITY MANAGEMENT DURING TEACHING

As it was said lectures give a new dimension to students' knowledge and their abilities. On each lecture a student should learn something new from the material that is being taught. Thus, the things a student learned should be controlled by control cards. However, measuring the amount of what was learned is undoubtedly hard. During the years, hundreds of techniques for class evaluation were developed to help us accomplish this task.

**CAT (Classroom Assessment Techniques)** [3] is a technique which teaching staff uses to gather opportune and frequent information about how students learn.

Combination of CAT technique of evaluation (grading) of classes with control cards makes it possible to manage results of teaching-learning process.

The purpose of that is to provide teaching staff and students information which would consequently lead to improvement of teaching and learning. Information received from CAT lecturers use to inform themselves about the changes in their lectures (the way they lecture). Students also receive this information to help them with learning. One of the techniques is “minute test” when students had to answer two questions:

- Which two-three things have you learned on today’s lecture?
- Which part of the lecture do you remember?

Another version of this test is to ask one question:

“What made the strongest impression on today’s lecture?”

By scanning and summarizing the answers which were obtained by CAT, the lecturer can prepare himself well for the next lecture, explaining things that are unclear but important for the following lecture.

It is recommended to use a modified **BKP (Background Knowledge Probe)** technique for measuring scientific material and drawing control cards for statistics results.

BKP demands that students write short answers or circle correct answers and it gives us information about previous knowledge students had. Modified BKP for lecture should ask students about their previous knowledge of the material which will be taught at the beginning of the lecture, but it should ask the same questions at the end in order to determine the level of learning during the lecture.

In one of the versions of that approach, BKP could be used at the beginning of the next lecture, i.e. after homework.

In activities that follow mutual work of many students on some project, other techniques of evaluation together with control cards are used.

Answers can be given by teams as a whole or individuals as part of a group (team). Access to the usage of these techniques with control cards has numerous advantages:

- information about students variations who come, i.e. knowledge they have in the start
- how well students have learned the material which was presented to them
- the knowledge «before and after» can be compared in order to roughly estimate the values we gained during the process of realized values
- unnatural (artificial) effects such as those when a student knows the answers before and not after examination
- students are focused on the most important things in a lecture if those maintain the mentioned, i.e. if the techniques are designed that way.

For example, modified BKP can consist of 5 questions from which each can have 6 answers offered. One of the offered answers is always «I don’t know», in order to eliminate guessing answers and to offer the opportunity to express lack of knowledge in that concept (material). For every answer statistics is gathered in order to offer the information about the number of correct answers before and after the lecture.

Information about the number of students:

- who answered correctly both times, before and after the lecture,
- who answered incorrectly both times, before and after the lecture,
- who answered incorrectly before, but correctly after the lecture,
- who answered correctly before, but incorrectly after the lecture,

All these answers should be included into statistics.

E.g. the correct answer was given 16 times before the lecture and 48 times after the lecture, out of 48 students, where 32 students learned during the lecture. On average for that lecture 90, 4% answered after the lecture and 52, 5% can be ascribed to the exclusively to the lecture.

Grouping of the answers should be analyzed in order to understand the reasons for often mistakes. Total number of correct answers shows a priori the level of subject understanding, and a posteriori the number of students for whom we can say that they learned that subject.

The situations when students made mistakes at both times or situation when they forgot or misunderstood the material during the course should be investigated. This could mean that additional explanations concerning this material are needed or even repeated lecture of some parts of the material. Also, this could mean that attention was weak, existence of fatigue or some other effects.

So, it is important not to jump to conclusions about these artificial causes and not to act right away, but to use control cards and make the difference between congenital, natural and artificial causes.

In order to monitor and manage teaching process and learn the consequences of learning (how much it has been learned), modified BKP techniques can be used during every lecture in the course.

These controlled variables can include the ratio of the students who knew the answer after the lecture ( $p_c$ ) and the ratio of students who made mistakes or didn’t know the answer before the lecture but knew after it ( $p_i$ ). While the first one measures the result of learning, the second one shows the influence of professor on students’ knowledge, on realized knowledge which is practically the result of the lecture. Because it is possible that some students answered correctly before, but incorrectly after the lecture, the difference between the number of correct answers before and after the lecture can also be indicator of required knowledge. These variables can be monitored by using a number of control cards depending on the number of statistics and sub-groups, e.g. if a

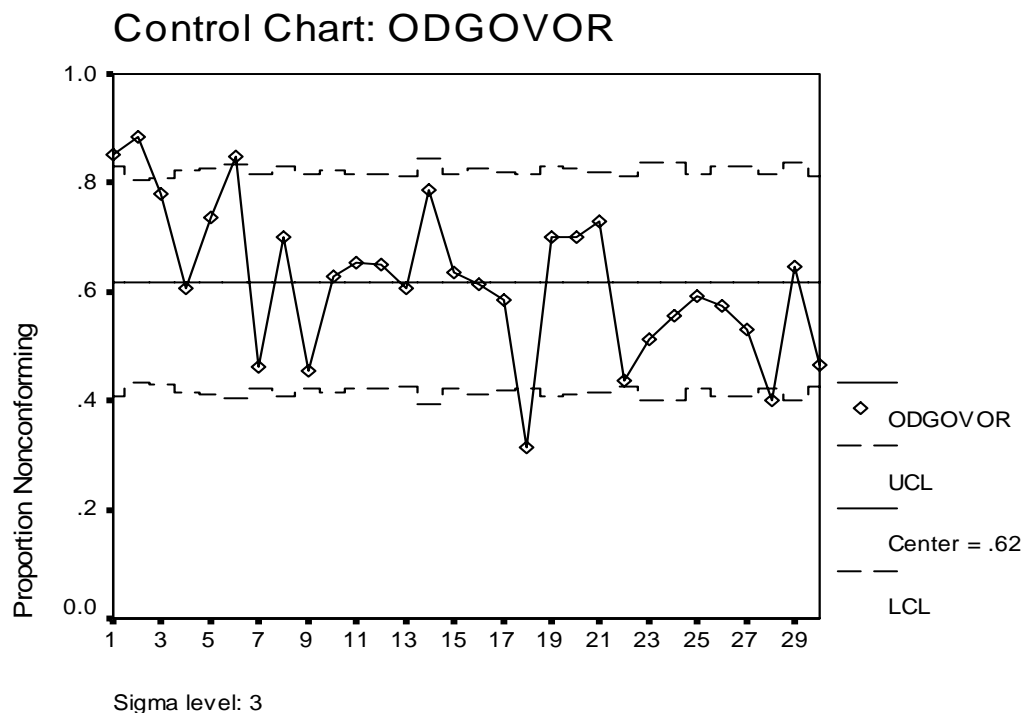
professor wants to note the performance on each question, p- card [15], with  $p_c$  and  $p_1$  statistics which are drawn directly for each lecture.

## 5. STUDY OF CASES, RESULTS, ANALYSIS

We are going to use this approach to lecture management on one statistics course. Modified BKP with 5 answers was used on 6 lectures. Lectures attended 40-60 students.

We are going to use p-card for  $p_o$  statistics, where every question was treated as a sub-group. The card shows 4 points which match the question 2,6,18,15,22,28 which are way below the lower control margin that shows the conditions outside our control.

Analysis shows that 4 questions were numerical and 2 theoretical. Questions required certain knowledge of other subjects (mathematics), as well as the knowledge of theory from covered material. Bad result can point out that the students didn't have the time, motive, and that special attention should be paid to practical usage of theory, as well as certain lessons from the course which students had difficulty to understand.



## 6. CONCLUSION

By introducing a quality control system in institutions for higher education it is possible to improve the quality of education. Richard Freeman [8] gives directions in which scope ISO 9000 can be used in training and education, emphasizing that 12 standards have direct usage in University. 20. element of the standard JUS 9004 are statistic methods, which are described through their usage and through the methods themselves. When education is concerned statistic methods can be used for:

- analysis of the needs for professional knowledge,
- creating and improving curriculums,
- monitoring educational process,
- establishing the level of quality or quality plans and
- Analysis of many data which arise in university (faculty) or are in any way connected with it.

The usage of statistic methods in the teaching-learning process improves teaching process. This will enable a professor to identify and eliminate artificial causes of variations in the knowledge of students and their abilities, and in his lectures, (i.e. in behavior, acting...). Moreover, documentation of results and SQC analysis enables top quality for students and users of services (employers, parents, i.e. the ones who are involved as users of services in education).

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## **ROLE OF MANAGERS IN KNOWLEDGE MANAGEMENT WITHIN THE TRANSPORT SYSTEMS**

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***Summary:** In this work, my attention is dedicated to "A Learning Organization" where the necessity of technological cooperation is emphasized, which is nowadays the essential component of modern organization, if it wants to survive and develop in terms of merciless market competition. To be first and to be technologically powerful means to concentrate technological might, to strengthen technological possibilities, and that is usually achieved by strategic connection with other organizations. In the recent years we have growing number of organizations searching for partners which would act complementary related to the competence which is lacking, either technological or in the market. In this concept various kinds of symbiosis, interest groups and networks of various forms are present, and all this by means of modern information and communication technologies in the process of education.*

***Keywords:** Education, technology, information technology (IT), communications*

### **1. INTRODUCTION**

Positioning of the phenomenon of education and services in general in the economic system in "organizations which learn", therefore between countries and markets, in modern terms is still an area burdened by numerous problems, mistakes, unclear issues, many dilemmas and alternatives. This is primarily a consequence of the traditional understanding of these phenomena qualify as an additional and extremely passive, and not as primary, which could encourage the most important instruments of growth and development, while the "learning organization" are treated as more fangled, rather than scientifically based discipline.

However, we find it evident that rarely any phenomenon in human history has made radical changes and impacts in recent years, such as these, changing the map of Europe and the world, which announces the beginning of a more complex balancing economic and political forces, as countries become more and more interdependent, and people are more aware of common features, giving them common goals and value system. It is evident that the time brought by the new millennium, is the time of cooperation and common interests, as new challenges – the effect of "greenhouse", the expansion of communication, migration of people, capital and goods of huge proportions, beyond national borders.

At the same time, this time presents a time of great economic and other difficulties, in other words "time of crisis". This means that the globalization of markets, globalization of business operations, globalization, competition, or a process called "paradigm shift" or changing the paradigm, and their effects, or their lacking, a form of conduct which brings the overall development.

### **2. REPERCUSSION OF KNOWLEDGE MANAGEMENT TO ECONOMIC AND TRANSPORT SYSTEM**

The economic system is a unity of homogeneous production relations which are based on the common organization of work, which is constituted as a unique structure of business organizations of interrelated specific methods of compliance of their activities.

The economic system presents organizations of various activities in which people with available knowledge and resources realize their goals. The volume of their business is exposed to constant changes, whose promoter is a

computer whose signals create and perform a multitude of business operations simultaneously at different places and thus create a greater volume of free time, which contributes to the reduction of the required number of people, and reducing a number of organizations.

By the '70s of the last century the number of employees and the organization expanded, and after that digital technology has affected that their number from year to year decreases.

Also, the appearances of diversified and complex organizations which realize their activity in several branches and recognizable areas have led not only to the decentralization of management, but also to the need to recognize certain areas through which they will achieve competitive advantage and effectively communicate with the market.

Likewise, the phenomenon of globalization has led to the emergence and growth of strong so-called "Off shore" markets, introduced the practice of buying and merging organizations and regional and international players, and lead, on a global basis, to the process of restructuring in some industries.

Independent trends have proved the new competitors and new forms of competition, there are new markets, new sources of offers, new potential partners, more or less contributing to the organization change, so that management gets new tasks. With regard to innovation and new knowledge are key elements for an explanation of the paradigm: the modern organization, the Internet, digital technologies and the development of science and life, aided by scientific innovations are creative processes. This is the essence of change. A new philosophy was created, which opens new horizons and rejects stereotypes, in other words it has a new way of looking at certain phenomena, problems and processes in the organization.

The appearance of revolutionary discoveries that were made due to knowledge management application knowledge is translated into modern organizations.

Today, the organization describes as a contemporary interaction of visionary leader abilities and Know-how skills of management. Transparency is achieved by the organizations' ability to absorb the available knowledge and learning in all its forms and propose different ways of their improvement to it can get the character of "a learning organization".

Transformation of knowledge and learning in the internal competence of modern organizations depends on the manager and form of communication between managers and employees.

Dynamics and changes in technology in modern conditions require a high degree of sensitivity to changes in the organization's environment and the willingness to risk, which is ultimately reflected in the establishment of solid or loose connections and relations with the environment, where all routes at the beginning and end of the manager, because nothing in the organization happens without its presence.

All the developments fully apply to organizations within the transportation system, as a part of the economic system.

### **3. TEAM WORK METHODS AND CREATING SUCCESFULL TEAMS**

The team can be defined as a specific kind of group, whose members have complementary skills and abilities, and are dedicated to achieving a common goal for which every member is responsible [1, pp. 321].

Member of the team by Felts should have the following characteristics, in other words, he should [3, pp. 116]:

- Demonstrate commitment – every team member must focus on the mission, values, goals and expectations of the organization;
- Cooperate – have a common sense of purpose and success of teamwork;
- Communicate – the smooth flow of information between top management and workers and
- Contribute – all members participate with their background, skills and abilities in a team.

Membership in the team must be voluntary, regardless of the need for greater engagement.

Most major companies already uses or thinks about the need for the introduction of teams into their production processes. Although lately there is a great interest in the teams, the process of their introduction is still in progress, though large companies are using them for several years, and some like Procter & Gamble over three decades.

According to Morman, teams vary based on:

- Primary task or purpose;
- The time interval of existence and
- Connection to the structure of the organization.

The first dimension relates to the primary task or purpose of the existence of the team. In this regard, some teams are known as work teams, and they are primarily engaged in performing work organizations, such as development and production of new products or the provision of appropriate services to consumers. These teams focus their work on improving resource organizations in order for more effective achievement of positive business results.



The second dimension concerns the time interval of team existence. Namely, in practice, some teams are being established temporarily for a particular realization of the project with the established deadline of action. For example, a team formed to develop a new product can be considered temporary. Once the task is completed, the team is dismissed. However, teams whose existence is a permanent character, and their existence is maintained during the organization's life, as is the case with teams involved in providing effective services to consumers.

The third dimension considers the team's relationship with the entire structure, i.e. link between various formal responsibilities that each carries the workplace. In some organizations, teams can exceed the scope of the various functional units (e.g. marketing, finance, human resources, etc) and they are said to be superior. Thus, for example, that improving the quality of certain products or services may interfere in the work of several organizational units involved in their production and implementation, bearing in mind the fact that the quality of certain products or services does not fall into the domain of only one unit. Practice has shown that the work of these teams is very difficult due to ambiguities in terms of their authority. Many organizations have a structure where people work together on certain products constantly, and his specialty is not applicable to a wide range of products. In such organizations, teams can work without fear of ambiguity that occurs when crossing the line scope.

TQM model insists on the existence of two types of teams when it comes to quality of products or services, and those are [3, pp. 116]:

- Team or a group for corrective action, which consists of classes that perform the production cycle, but their participation is voluntary, and deals with specific problems in the department;
- Improvement teams or committees for quality – formed by the management whose members have great expertise and capability and deal with problems concerning the whole organization.

Teams for quality improvement present committees appointed by management, whose composition consists of workers from different departments.

Teams to improve the quality of deal with key issues of production, especially with:

- Development of new products;
- Improving the contact with customers;
- Reducing production costs;
- Bad relations between the first line of servicing and physical and managerial support and
- Improvement of information flow.

It is important to mention that all boundaries between teams must be considered permeable. People are often members of not one but several teams – as a result of the situation imposed by the organization that could effectively operate. For example, members of the production team in an organization must carefully coordinate their activities with members of the marketing team. The extent to which people are involved in several types of teams, their horizons are expanded, and their contributions to teams they belong to, are becoming increasingly important.

Assembling a team is not an easy job. To achieve this, we need not only the right communications of professional people, but individuals who are willing to work with each other within the team.

Greenberg points out that the composition of the teams goes on in the following four stages [2, pp. 73]:

- 1) Pre-work,
- 2) Creating work conditions,
- 3) Assembling and constructing a team and
- 4) Providing ongoing assistance.

The first phase of "pre-work" includes:

- Making decisions what work should be done,
- Determine whether the team is needed to complete a task,
- Determining what authority the team should have and
- Setting the goals of the team.

One of the most important tasks at this stage is to determine whether it is necessary to create a team? Manager in creating a team may opt for a variant of a few individuals to work independently and to answer him can they create a team, if he believes that it will be developed in the most creative and the most trenchant methods. It is important to emphasize or determine exactly what kind of job should be done. In other words, we should establish team goals and make an inventory of skills that are needed to get the job done. In addition, we should previously make a decision about the kind of authority that the team will have. The team can be an advisory body or a manager to assume full responsibility for the performance of its task (i.e. self-regulation).

The second phase, "creating conditions for work" includes:

- Provision of necessary materials and equipment to perform the planned work and
- Determine whether the team consists of all personnel necessary to perform the planned job.

This phase should provide the necessary conditions under which the team will work. Also, resources should be provided, that are needed so the work of the team would be successful. In the category of securing the necessary resources including provision of material resources (tools and equipment needed) and appropriate human

resources (with appropriate qualifications and abilities to perform certain tasks) and also support organizations (in example, good will to give the team freedom to perform the work as it considers is appropriate). Also, Manager Support is needed.

The third phase "formation and the construction team", includes:

- The establishing of boundaries (who is and who is not in the team?),
- Obtaining consent in the form of tasks that the team should do and
- Determine what behavior is expected of each team member individually.

In this phase, for the team to start the work, three things must be done:

- First, managers should determine the boundaries and clearly determine who is and who is not a member of the team. Activity of some teams experienced failures in the work of because of simple reason: the membership in them is not defined. Reducing any uncertainty (ambiguity) can avoid confusion and frustration;
- Second, team members must accept the global task and purpose for which the team exists, if it is not made, the failure is inevitable and
- Third, the organization's executives should explain the task of the team and its responsibilities, or to highlight exactly what is expected of the team (but not how the team can come to that).

The fourth phase of "providing ongoing assistance" includes:

- Providing interventions to eliminate the problems within the team,
- Supplementing and improving the quality of material resources and
- Determining the replacement for those members who leave the team.

This phase refers to that period within which the category of the team is realized. During the work the team operators must provide continuous support to the team's work. In fact, managers need to help resolve problems that occur during labor. Also, their activity must be focused on undertaking work activities that are aimed at improving the quality of work organization and to provide organizations the chance to work better. Of course, members who leave the team must be replaced by other members.

## **4. RADICAL CHANGES IN ORGANIZATIONS**

Organizations that want to be successful must be "innovative" and "organizations that learn".

The last two decades of the twentieth century are characterized by the accelerated process of change (technical, economic, political, demographic, social or other nature) which affect discontinuity in many activities of the economy and society [4, pp. 85].

Faced with these changes, the organizations have responded by applying:

- model of evolutive changes and
- model of revolutionary changes.

Model of evolutionary changes is based on the organization adaptation to incremental (small, or step by step) changes. One of the most known evolutionary changes is the broken balance model.

The model of revolutionary change is based on transforming an organization that involves radical, comprehensive and very intense changes that involve all components of the organization.

Typical methods of radical change are:

- Reengineering,
- Restructuring (Downscoping, Downscoping and Leweraged Byots),
- Quality processes,
- Mergers and acquisitions and
- Kotter's contribution to radical changes.

In earlier presentations there were words about reengineering, restructuring (Outsourcing, Downscoping, Downscoping and Leweraged Byots) and quality process (TQM).

### **4.1. Mergers and acquisition**

Merger strategy and method of radical changes is when two or more organizations contractually integrate their activities on a relatively equal basis. In practice there are no true mergers, because one side is always dominant.

Mergers, or merging, is always realized on a voluntary basis.

Acquisition is a strategy and method in which an organization buys a control package or 100% participation in another organization, thereby creating a merged organization as a subsidiary unit within the portfolio of existing units. Merged company loses its legal independence.

Takeovers are a specific type of acquisition, which mark taking over an organization without its consent. As a rule, these are hostile transformations.

Acquisitions occur through mergers and takeovers, and they aim to increase business capabilities of an organization.

Mergers always have a friendly character, while acquisitions and takeovers may have hostile character [4, pp. 88].

#### 4.2. Kotter's contribution to radical changes

Kotter has, based on his research, and established the principles that enable the improvement of public and private organizations, realizing them with "reasonable costs".

The realization of radical change is done in eight steps, or eight phases, in the following way [4, pp. 89]:

- 1) Creating a sense of urgency for change,
- 2) Assemble a team that will lead the changes,
- 3) Creating a vision and a strategy,
- 4) Effectively establish a link between vision and strategy,
- 5) Remove barriers in order to enter into action,
- 6) Achieve short-term victories,
- 7) Create a wave after a wave of changes until the vision becomes reality, and, at the very end
- 8) Create a new culture in order to create a new code of conduct.

The main source of all eight stages is the change in human behavior.

The process of creating change in eight phases:

1. CREATING A SENSE OF URGENCY FOR CHANGE	Market research and competitive realities Identification and review of potential crisis or significant odds
2. CREATING THE LEADING COALITION	Gathering of a group that has enough power to lead the change Directs the group in a way that involves teamwork
3. FORMING A VISION AND A STRATEGY	Achieving the vision that helps in directing changes Developing strategies for achieving the vision
4. COMMUNICATION OF VISION AND CHANGES	Using all possible means of communication for constant expansion of new vision and strategy Have a model of a role of the leading coalition, as well as models of behavior that is expected of employees
5. CREATING EMPLOYEES' AUTONOMY FOR A WIDER ACTION	Removal of barriers Changes in systems and structures that impede the vision of strategy Encouraging risk and non-traditional ideas, activities and actions
6. ACHIEVING SHORT-TERM SUCCESS	Planning towards visible improvement of the performance or success Creating those successes Visible recognition and rewarding people who provided these successes
7. CONSOLIDATION OF ACHIEVED ADVANTAGES AND LAUNCHING FURTHER CHANGES	Use of increased credibility to change all systems of structures and models that do not fit together and which do not fit the vision of transformation Involvement, promoting and developing people who are able to realize the vision of change Updating processes with new projects, themes and change agents
8. IMPLEMENTATION OF NEW APPROACHES INTO CULTURE	Achieving better performance through the behavior oriented towards consumer and productivity, more prominent and better leadership and effective management, non-late connection between new customers and the success of the organization, Developing a mechanism that ensures the development and change of leaders

**Figure 1:** The process of creating changes in eight phases [4, pp. 90]

At the same time Kotter has identified the most common errors that occur in the transformational process, and those are:

- Giving up to excessive satisfaction,
- Gaps in the formation of sufficiently powerful coalition,
- Disparaging the power of vision,
- Failure of vision communication,
- Permitting barriers to block the new vision,
- Gaps in achieving short-term success,
- Premature announcement of victory and
- Changes that are not firmly embedded in the culture of the organization.

Error no. 1 – Giving up to excessive satisfaction is the biggest mistake that people make in the process of transforming the organization.

Error no. 2 – Failure in the formation of enough powerful leading coalition are reflected in the fact that to achieve the transformation of organizations not only support for first person organization is enough, but the support of all employees is needed.

Error no. 3 – Underestimating the power of the vision realizes a lot of negative factors for the realization of radical change.

Error no. 4 – Failure of vision communication is reflected in the verbal communication without realizing specific works.

Error no. 5 – Allowing obstacles to block the new vision is reflected in cases when the workers accept the vision, but do not feel capable to achieve the same due to the existence of a large number of obstacles that block their work.

Error no. 6 – Failure to achieve short-term success reflects in the fact that the factors of production process will not opt for more profitable business, if your success in achieving short-term operations are not adequately rewarded.

Error no. 7 – The early victories or achieved positive results in the transformation processes may negatively affect the future course of transformation, i.e. may adversely affect the further implementation of business strategies.

Error no. 8 – Changes that are not firmly embedded in culture of the organizations, have a negative impact on the process of transformation, because during time, they are lost.

The presence of any of these eight errors in the processes of transformation of the organization can have far-reaching negative consequences. Using available knowledge and conscious planning activities they can be avoided or their effects can be moderated.

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## **CRISIS OF THE COMPANY, AND THE WAYS TO STOP AND PREVENT IT**

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***Summary:** Crisis in the company are undesired, but sometimes inevitable. They can be caused by different causes –extern and/or intern. The dominating opinion is that there is a necessity to differ strategic crisis, crisis of success and crisis of liquidity. Management of the company in such circumstances, in general or specially, takes the role of crisis management. Managing activities of crisis management in finding symptoms and causes of the crisis, as well as sanation of crisis, are based on basic and special accounting reports, as dispositive and control managing instruments. Crisis of our companies ahs special characteristics – privatization and restructuring – which additionally increases the role and importance of support for crisis management.*

***Key words:**company, crisis, management, restructuring, sanation..*

### **1. INTRODUCTION**

Modern world, business surrounding and companies themselves are in constant changes and turbulences. Restructuring, reorganization and other great changes are very often in attempts to make company grow and/or survive. Company in its life circle goes through different phases, which necessarilly means that it has to change and adjust to every phase. In the phase of growth of the company, from small to middle, the inevitable thing is transition from business to managing organization. That change is very sensitive and usually comes late.

In one word, **‘trasformation of organization, in modern conditions, is represented as a condition of strategy of growth and development of the company, equally as a condition of its repair and survival’** [4].

In theory and practice of management, trasformation of the organization is most commonly used in times of crisis. Transformation can be painful and difficult.

Experts and scientists have dealt with the problems of transformation, as a special phenomenon, since nineties of XX century till today, although there were other models of restructuring of companies earlier. Organizational changes are new challenges and demands for all, from executive managers to workers in production

If change, specially in times of crisis, is not managed in proper way, there are additional losses in the company. Also, what can happen in loss of morale with workers, disrupted communication, increase in number of stress situations, departure of good workers and so on. The employees want stability, and since changes often bring instability, people have resistance to changes. In such situations owners and managers too should explain to the works the reasons, essence and goals of changes, so that they are ready for changes.

The fight for survival and profit are main motive and goal of the owner and management of the company. In the situation when the company is in crisis, management can not care too much for all employees. It is justified by rationality and efficiency, and in harder crisis by saving of what can be saved, preservation of the healthy part of the company etc. Optimal situation is the one where the management predicts possible action of the crisis and has enough time and possibilities to adjust to it, carefully choosing methods and models of transformation of the company.

## 2. THE TERM CRISIS

There is no clear and one-way term essence of the term crisis, but there are numerous and often different interpretations. The word crisis comes from Greek language (κρίσις) and meant 'judgement' or 'decision', that is, determining moment that decides about further positive or negative development. When accident crosses normal limits company enters in the world of crisis. Term 'crisis' is usually used for all types of negative events and situations which are unwanted, unexpected, inevitable. Phenomenon crisis woke the attention of many researches from different fields (economy, history, politics, medicine, ecology, psychology etc.) so the term crisis is often used in different meanings for different research fields: psychology talks about the crisis of personality, medicine about crisis as peak of disease, and ecology about critical endangerment of environment.

Modern definition of crisis is given by Heart: **'Crisis is serious threat to basic structures or fundamental values and norms of social system, which, in conditions of time pressure and very instable circumstances, demands critical decisions.'** Crisis occurs when institutional structures of social system experience relatively strong decrease of legitimacy, while its central service functions are weakened. In conditions of crisis political and social trust expires relatively fast.

Main characteristics which are common for all crisis are:

- a. ) Unexpectancy: When crisis occurs, it not expected, but some characteristics of the crisis were, or at least could be clearly visible before it occurred. Crisis that occur without any previous warning or a sign occur are rare. Level of expectancy differs by the fact if the company could not predict the crisis at all, or it was not aware of the danger. The crisis that management could not predict are terroristic attacks. Also, there are the crisis which surprise not only management because they are not in their surrounding but outside. For example, media, government etc.
- b. ) Lack of readiness: Managers are often not prepared, sometimes not aware of the occurrence of the crisis and the fact that surrounding is complex and unreliable enough talks about it. In modern world full of information managers rarely get enough quality information to decide. They often use statistical marks about possible dangerous and crisis events. Then they have to take care of the fact that there are many event which are not so probable but bring crisis with great consequences.
- c. ) Time pressure: Crisis is a temptation for managing capabilities because in conditions when there is lack of readiness and unexpectancy from managers it is demanded to make decisions even faster than before, which is a highly stressing situation. Because of that for a successful managing of the crisis it is necessary for managers to be aware of them and respect them when they are forming programs of management – most of all when they are making a system to discover crisis easily and plan them.

### ***Crisis in the global surrounding***

World trade, in the last hundred years, has gone through different periods of rise and fall. Those decreases have sometimes taken a character of general depression, with catastrophic consequences on global, national, corporate and individual plan. For actual, growing, global financial and economic crisis, experts assume that it can take even greater measures and negative consequences in relation to crisis in the thirties of the last century. The reason for it is a great sensitivity and dependancy of national economies from global, national financial and economic center of power, as well as from institutions and mechanisms of functioning of global financial market. With this, we should add that big and small 'players' on world markets have too high expectations of success. In that greed for quick wealth, many individuals, companies and states are brought to the edge of complete crash.

Linking and inter-dependance of business subjects, as consequence of economic globalization, lead and will lead other business subjects in serious difficulties and crisis. Our country will not be out of this current, nor its institutions, business subjects with greater or smaller consequences. The positive circumstance is that our companies were not included in global movements. However, our market felt strikes very quickly in the field of market of real estates, decrease of flow of investments etc. Direct consequences will be felt by business subjects themselves, companies in all business branches and also the citizens too [4].

Answers on the crisis must be looked for and received on all levels and in all sectors of business. As soon as we analyze the action of crisis, we will have bigger chances to stop it or at least decrease the consequences.

### ***Crisis of the company – Essence and spreading***

Although basic understanding of crisis is generally catching the attention of theoretics from many scientific fields, history, medicine, politics, psychology, social studies – in order to give approach and focus attention specially on the field of economy, or phenomenon of the crisis of the company [1].

**The term crisis of the company** is, like many other scientific fields, primarily connected to situation of development in which the company has reached critical point with certain characteristics. Today, it is difficult to use one definition to comprise all characteristics of crisis of the company. However, in a narrower sense, crisis of the company is seen as a process in which, without a plan and desire, the set basic economic goals of the company are endangered – the goal to preserve invested capital, the goal to have profit (profitability), the goal to keep liquidity and keep the company solvent. Crisis of the company is a 'critical moment or point' in the line of

unsuccessful managing activities, that lead to condition where the company is existentially threatened. Terms like conflicts, disturbances, agonies, catastrophies etc. can not be seen as synonyms.

**Classification of crisis of the company** can be done according to many different criteria, such as, for example: location and number of causes of the crisis, lasting of process, type of activities, location of action and other criteria. However, from the aspect of endangerment of realization of previously set concrete basic economic goals of the company, specially having in mind the time of revelation, this classification of the crisis is exceptable:

**a) crisis of liquidity of the company** is business and financial situation of the company when it is not able to cover its obligations on time. Crisis of liquidity is the first that occurs as a state that was not planned or wanted, and it is a result of inadequate planning and ineffective control of money flow, or lack of synchronized coming and flowing of cash. The reasons for the occurrence of crisis of liquidity can usually be put to inadequate financial structure and occurrence of losses in the business of the company.

**b) crisis of success of the company** occurs in conditions when the company can not realize its goal to preserve invested capital and aim of profit, and it represents business and financial situation of the company when making money is in question. While crisis of liquidity relates to unwanted liquid position, crisis of success relates to bad profit position of the company, or the occurrence of loss or small profit in business. Recognition of the crisis of success is harder than crisis of liquidity, especially in unstable, inflatory conditions of business.

**c) Strategic crisis of the company** is business and financial situation of the company where, because of missed or inadequately realized strategies for preservation of the mission and aims of the company, the basis for success was endangered for longer time – aim to preserve invested capital and aim of profitability. For example, those could be missed or inadequate strategies about strengthening of technological advantage, reducing expenses, winning new markets etc.

Symptoms and causes of crisis of the company are very hard to separate with precision and analyze separately.

**Symptoms of crisis** are basically just indications with certain marks by which it is possible to recognize the existence of crisis of the company. Symptoms of crisis can be different, numerous and with changeable manifestations. That is why it is often hard to identify them as real causes of the crisis. It is possible that symptoms of crisis are based on coincidences or with the same or similar indications as real causes of the crisis of the company. Furthermore, some symptoms can remain invisible, and some do not have to come from some crisis of the company. The stated, and other special reasons, can make concluding very hard whether the company is in crisis and what type of crisis.

**Causes of crisis** are concrete factors or facts that lead to occurrence of the crisis of the company. They can be numerous, different and in many layers. They can come from the company itself and/or surrounding. The causes of crisis that come from the company itself can be located in all functional managing areas of activities. Furthermore, crisis of the company usually starts by action of more connected factors of different intensity. This all points out to complexity of identification and analysis of crisis of the company. This is why in theoretical and practical researches the accepted global classification is to external and internal causes of crisis in the company [1].

**a.) External causes of crisis** come from the business and system ambience where company is working. Among factors of devastation of the company we can state: strengthening of the competition and lack of possibility of the company to follow it, sudden technological change that the company can not follow, social and political situations in national and international frames, decrease of life standard of people, sudden increase of prices of raw material, change of conditions for credits, drop of value of national currency, high inflation etc.

**b.) Internal causes of the crisis** are from the aspect of occurrence, possibility of influence and importance, more important than external. Many companies crashed, mostly, because of internal problems. Basically, much more important causes of crashes of the companies are internal character. Company can influence them in much easier and efficient way than with the first ones in order to stop weak performance of the company, bad business results, and stop collapse and crash of the company. Among internal causes of crisis of the company are: low level of productivity, high expenses of production and price of product, lack of financial control, lack of means and assets, chronic loss of liquidity, high level of unpaid demands, bad marketing and sale, debts of the company and at last, bad management of the company. Owners themselves are often causes of crisis: high ambitions, desire for fast development, spreading capacities and business activities in different fields of business, purchase of other companies with bad characteristics, excessive trust in existing management etc. [4].

### 3. RESTRUCTURING AND MANAGEMENT OF CRISIS OF THE COMPANY

#### Existing signs of crisis in the company

Current economic crisis is just one strong wave that hits companies. Effects of crisis will not affect in the same way the different business branches, small, middle and big companies, stable and less stable companies. The company, or management, must find ways and answers to the actions from surrounding by different kind of strategy, change of business policy etc. in order not to experience collapse. It is much harder to react to influences

from surrounding and find good solutions. In that situation, solutions are usually in adjustment to new conditions of business.

Crisis of the company does not occur only because of trouble in external surrounding. Crisis in the company in practice has never occurred suddenly, no matter what are inner or outer reasons of development, but cumulative and in many individual areas, and not in all at the same time. Because of this, crisis is easy to predict and stop. Signals of crisis, even the weak ones, should not be ignored. The health of companies is similar like human organism, the sooner you detect illness, the easier to cure it. If crisis is not at the beginning, and no actions were taken meanwhile, the responsibility is on the management.

In times of crisis, management of the company, owners and managers, have many possible models of transformation of organization as a way to deal with crisis. These models are not local invention, but used in the whole world. Which model will be chosen and applied depends on causes, character and scope of crisis. So, they can use partial or general models, which mean radical strategy and deep transformational changes. In some situations, they use methods of transformation that give fast and short-term solutions.

Before they make a decision about application of the right model for exit from crisis, the so called crisis management is introduced, that does not only mean the change of existing management or introduction of new one, but setting such an ambience in the company that asks for fast and controlled action in all levels of the company. The existing management is often changed for the role it had in bad identification of the occurrence and growth of crisis, and mistakes they made because of neglect or ignorance. It is hard to expect that same management is capable to give solution for the way out of crisis.

Crisis management should first identify situation and give diagnosis of condition, analyze productional, market and financial characteristics of the company, and then take measures to exit from crisis or strategy of change.

Models which are usually recognized are reorganization of the company or change of organizational structure 'downsizing', which is decrease of the greatness of the organization, different models of revitalization or recovery of the company, and very often model of restructuring of organization is used as a way of complex change and exit from the crisis.

#### ***Restructuring – financial restructuring***

Restructuring of organization is a model that comprises a much wider assortment of measures, in order to uplift inner competence of organization and its market competitiveness. The width of restructuring of organization starts from wider spectre of measures such as: closing or sale of non-profitable parts of the company (reduction of asset), control and reduction of all expenses, firm financial control, reduction of the number of employees, moving of some productional lines to others, cheaper locations, reorganization of organizational structure, restructuring of debts etc.

Besides these, defensive strategies, a lot of attacking strategies are included in order to improve business, such as: preservation and development of healthy part of the company, additional investment in development and new products, engagement of new management, focus on certain products and new markets, improvement of sale, work with other companies etc.

Restructuring of the company is also often used not only in times of crisis but when ownership structure is changed. New management through this model conducts strategy of turn to increased performances of the company and increase of its market value. In the world it is common thing that investment companies or funds buy companies, whose market value is not high in that moment, do restructuring to increase their value and then on market sell that company, making profit in that way.

There are lots of types of restructuring: restructuring of business portfolio, organizational restructuring, financial restructuring etc.

Financial restructuring is the most successful way out of crisis and best improvement of the work of organization or company. It is not easy to recommend which model to accept because it depends on the company.

The term 'restructuring' usually marks reforms necessary for transformation of a state, in market business of western type and modernization of all companies and business institutions.

Except general factors that influence the position of a company, two of the most important causes of financial unliquidity in our conditions are excessive number of workers and great (unpaid) debts, mostly as banking loans. These two causes are often intertwined because many companies took credits to pay salaries to their numerous workers. The problem of workers should be done by organizational restructuring, while the problem of financial types should be a part of the program of financial restructuring. The question that is asked is if the state should do restructuring before ownership restructuring or the new owners should do it or there is the third approach? Lack of liquidity is of many companies lead to lack of liquidity of many banks since the companies are not able to pay the loans that banks gave them. So financial restructuring of the company must comprise the restructuring or sanation of the banks. Financial restructuring demands that all the companies are spread in three categories [2]:

- Companies that are financially liquid and can pay their debts;



- Companies that should be closed or terminated. Their assets should be sold and means from the sale use for the payment of a part of their debts. Such companies would not be profitable even if their entire debt was eliminated;
- Companies which could become profitable if their debts were reduced. Those companies are basically good, but they have too much debts. They should be allowed to work, because their value as active companies is higher than the value that would be received by their termination or sale of assets. For those companies to continue working, those whose gave the loans should except reduction or partial reduction of their loans, since companies can not pay them off.

By this categorization, it would be possible to see the real financial situation of companies and banks, and then it would be clear which banking loans can, and which can not be paid off.

### ***Essence of crisis management***

*Essence of crisis management* is not properly understood and widely excepted in business life, specially in our companies. Adequate managing activities of the company in 'normal' conditions and circumstances of business of the company are for successful realization of the mission and aims of the company, and that is avoidance of crisis. However, crisis of companies are sometimes inevitable, and sometimes a result of many different and simultaneous causes. The company should be managed in times of crisis, but then management of the company has different characteristics. Crisis management understood as a process of managing activities is also going through five stated phases – planning, organization, motivation, control and communication, but with the basic aim to overcome the crisis and enable company to survive on market scene for a long time. Crisis management seen as institution, means that carriers of crisis management, certain experts who manage the company in crisis to sanate it. So, crisis management should be seen as 'special form of managing the company of the highest priority, whose task would be to avoid and overcome those processes that could otherwise endanger or make impossible the further survival of the company.' It is justified to except the that crisis management could be: strategic, operational and financial crisis management, which can be further differentiated to crisis management to stop liquidity crisis and crisis management to keep the company solvent [1].

*Strategic crisis management*, from the aspect of prevention, should protect the existing potentials and assumptions for realization of basic economic goals and successes of the company. Strategic crisis management has three possible directions of actions through strategies: withdrawing (withdrawing investments), consolidation (investing) and restructuring (attacking strategy).

*Operational crisis management* has a task to remove the dangers of the crisis of success of the company; dangers to fulfill aims of sale, business incomes and profitability of the company. Managing of this kind of crisis includes adequate individual and group measures on increase on the demand, production, sale and income of sale, on one side and measures calculated to decrease expenses, by application of adequate technics to manage expenses of the company.

*Crisis financial management* can relate to wrong short-term financial position of the company, or condition of the lack of liquidity of the company and bad long-term ownership position of the company. Crisis management for fixing the status of liquidity of the company has a task to remove the causes of current lack of liquidity. Financial measures that can be taken refer to speeding the payment of demands, planning flow of cash, conversion and/or postponement of certain credits, getting new better credits, postponement of payments of obligations, conversion of obligation to capital. Crisis management for improvement of condition of solvent company has a task to preserve the company or at least some of its organizational wholes (segments) after crisis and under the threat that the company will be bankrupt. Certain measures that crisis management can take refer to measures in the procedure of sanation or possible termination. Here we assume that the company has a certain perspective, potential and possibility to activate for the fulfillment of success of the company in near and distante future.

### ***Stopping and overcoming the crisis***

*Stopping the crisis* is application of certain measures and managing activities with the aim to predict the crisis, and not let processes of business and financial activities which are critical for the survival of the company, those that lead the company in crisis. However, there are certain difficulties in determination of measures and managing activities for stopping the crisis and 'regular' measures calculated on realization of basic economic goals and success of the company is general. Stopping crisis of the company gets a special place by certain strategies and instruments which are applied for the fulfillment of this special aim – aim to stop crisis of the company..

*Overcoming of the crisis* refers to all measures and activities of crisis management that have as aim sanation of the company and further successful business, or termination. The advantage is given to sanation of the company because of the interests of the stock holders.

*Sanation* first of all means making certain business and financial decisions about: the determination of aims of sanation, choices and realization of certain strategies, taking certain measures of sanation for realization of programs of sanation and projects. It is obvious that sanation of the company comprises wide area of measures

and managing activities of crisis management of the company. In dependence of area that is a source and type of crisis, the programs of sanation, projects and measures of sanation will be chosen.

#### 4. CONCLUSION

Our companies do business and they are managed in circumstances where one business and legal system has stop functioning, and the other did not start living in the right way and completely. It is hard to manage company in conditions in which our business is functioning, with great crashes and turns, that are manifested through: rapid decrease of social product, technical and technological aging, structural coherence of business, financial exhausted companies, lack of marketing orientation in business, huge exposure of the companies to unstable prices of under systems and lack of efficient of strategic and operative management. However, greatest crashes and turns occurred because of: crash of joint market – now ex-Yugoslavian area, tearing many reproductional connections that have worked for many years without problems and lack of normal supply of the market with key raw materials, half-products and final products. This crash of business system that was followed by tearing of financial connections between companies and tearing to pieces what was once a unique and 'wider' business organism. In such business ambience, the companies reduced their area to small 'dimensions', so sometimes they could get a wrong impression, that they do not have to make connections, with wider surrounding. Modern conditions of business of the company, in more or less all countries of the world, are characterized by complexity and fluctation. Special conditions of business of the company created a problem to our companies and they show constant decrease of their capabilities to make money and making financial position worse. It is a sort of crisis of business of the companies in our business and system ambience.

Detection and stopping, specially overcoming of the crisis are in scope of activity of management of the company. In such circumstances, the management of the company takes a form of crisis management as a specific form of managing of the company. Crisis of business of our companies, symptoms and causes, especially ways to overcome the crisis through privatization, have certain specific characteristics, which gives to crisis management additional role and importance.

The companies, and its managers, do not have any more possibilities to use tactics and avoid search for answers to problems that new age is bringing. Since the company can not live without changes and optimal adjustment to new circumstances, it has to change or it will vanish. Individual company stopped being the subject of care of the society, except creation of certain ambience for its performances to come out. Since the company 'has come clean' and is not influenced by anyone, it is the exclusive master of its destiny.

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## SYSTEM OF MORAL VALUES OF YOUNG PEOPLE AS A PRODUCT OF THE CRISIS IN THE SOCIETY

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**Summary:** Moral values are an important part of our culture, but also a part of a personality, its mental structure and motivational complex. Moral model is used for adaptation of a personality to its time and society. Therefore, moral values are ideals, which we should strive to realize. A moral criterion enables a selection and variety of good, desirable and possible. Radical change of opinions and institutions are actually changes in the system of moral values of a specific society and certain individual. Keeping in mind that we do not possess new facts about position of young people on fundamental social values and their moral orientations, we did a research of moral system with our young population. The aim of this research is studying the system of values of high school students in Vojvodina, who attend final grades, basic individual and social values, the general attitude towards the society they live in, the attitude towards their environment, as well as the education and prospects in our country. A sample of variables had one independent variable, which was the age of students and 22 dependent variables, which were the questions in the questionnaire about the young people's system of values. The sample had 386 students from the territory of Vojvodina who attend forth grade of high school in Vojvodina. Procedure for data processing used: descriptive statistics, arithmetic average counting, frequency, standard deviations etc. Based on the results, we can draw a conclusion that top values of young people are health, family, love and economic security. Based on the completed research one of the most important conclusion can be that there is a direct cause and effect connection between the young people's system of values and the huge tendency in our society we have towards corruption, crime and the trash of a work of art.

**Keywords:** orientation of values, systems of values, young people, standards of behavior, attitude towards society, attitude towards the environment, education, prospects.

### 1. INTRODUCTION

In the field of culture, modern life is dominated by the so-called. "mass culture" and it, in the field of humanism and morality, threatens the traditional, and general human values. The developing cult of entertainment and diversion on a low cultural level, that culture develops and cult of laziness, easy life, prosperity outside of work, and also the cult of consumption and the satisfaction of physical drives, sensual (erotic and other) excessive passion, and all that at any cost.

In the field of education, all the basic factors of socialization of a personality (family, peers, school, institutions, culture, etc.) give great importance to moral education and seek to overcome the contemporary moral deviation, flows, drives and the like. It emphasizes that the morale is best developed in democratic relations between people in work and development of society and man, in the sociality, solidarity, friendship, freedom ... Special importance is given to educational organizations. In them, among other things, are systematized and want to affirm the moral values of people.

Values can be defined in many ways and are mostly related to the concept of personal and social desirability. Besides these facts, the study of system values, relative stability of value orientations, should be taken into account, as well as their generality, motivational force and hierarchical structure within the different categories of values.

In this context, the values can be defined as "relatively stable, general and hierarchically organized characteristic of individuals (disposition) and groups (elements of social consciousness), formed by mutual action of historical, current-social and individual factors, which for such assigned desirability, direct the behavior of individuals toward certain goals."(D. Pantic)

Value system of individuals or groups is multifunctional. According to M. Rakic function values are:

- establish the standards of conduct,
- motivate for action
- Provide a framework for conflict resolution and decision making.

#### **Are new values created?**

History of value creation is the scene of the struggle between old and new values, between the existing and desired values. Values direct human practice and human behavior always in two opposite directions, one that goes in the direction of evaluating the existing system of values and expresses a desire for creating new, and another that requires a behavior, which corresponds to a valid structure of social relations. That is most intense at times of social conflict and change, followed by different crises.

According to Supek, two types of values exist, there are those that regulate the relations of individuals in society, and are based on the principle of reciprocity and those that regulate the relationship between individual toward the community and its collective symbols, and are based on the principle of participation, or crush. The first assume the relationships between individuals as ideally equal and are best presented in the exchange. Typical examples are: fairness, equal opportunity and equality, honesty, etc. Others exclude reciprocity. They are based on an asymmetric relationship and over-emotional and irrational behavior. Typical examples are: Valor, piety, devotion, parenthood, humanity etc. The degree and type of their existence depend and are show with different types of social identification: those in who there is a developed self-consciousness in those in who self-consciousness is suppressed. In the first case of the above sphere of collective life is served for the development of the individual, while in the other case, the individual is found primarily in the service of a certain collective sphere. On that basis it is possible to constitute different types of value of personality orientation who can serve as a supportive methodological tool in the analysis of empirical situations.

Between collective and individualist value system there is a conflict. The first is the individualistic tradition-oriented closed societies and in it there are families, related groups, territorial and ethnic community and all are placed in front of individuals; while the other features the modern, open societies, and it dominates the individual as a value for themselves, and collectivity in the background. Each of these models has its positive and negative sides. In the first case the individual enjoys the benefits of collective solidarity, but it struggles in the tyranny of generality. In the second case individualism easily becomes egoism where another person is viewed solely as a means to achieving own goals. The best solution lies in the development of humanistic individualism, which can be attained only if the other person is viewed only as an objective, without which the possible of own personality development is not achievable, because it achieves in relation to other people, namely the most effective way to discovering one self is through other people, in the process of mutual communication.

## **2. SUBJECT, PROBLEM AND OBJECTIVE OF RESEARCH**

Case studies are attitudes and opinions of the high school population of Vojvodina on basic individual and social values.

Since we do not have new research about the attitudes of our youth to the basic social values and their general value orientations, the intention was that for the needs of Management University -Fam we perform a research on the value system of the young population of our society.

The research problem is whether there is a connection between the value system of youth and the current status in society (the presence of various crises)?

The aim of the research is to determine the value system in Vojvodina's youth in education and perspectives;

## **3. HYPOTHESIS**

The main research hypothesis is that there is a high correlation between the value system of youth and the current status in society (the society crisis).

## **4. RESEARCH METHODOLOGY**

The sample of variable research presents the age (as independent variable) and questions from the survey, "Value-orientation of youth" (as the dependent variable).

The sample of the survey is made from fifteen graduation classes of secondary schools of Novi Sad which is 386 respondents.

The research was conducted using the survey method. Surveys are anonymous and contain basic personal characteristics, but not the name of respondents.

This study used two basic methods: the method of theoretical analysis and survey method.

With the first method we analyze this issue of adequate content, actually those professional and scientific studies which deal with the value system of youth.

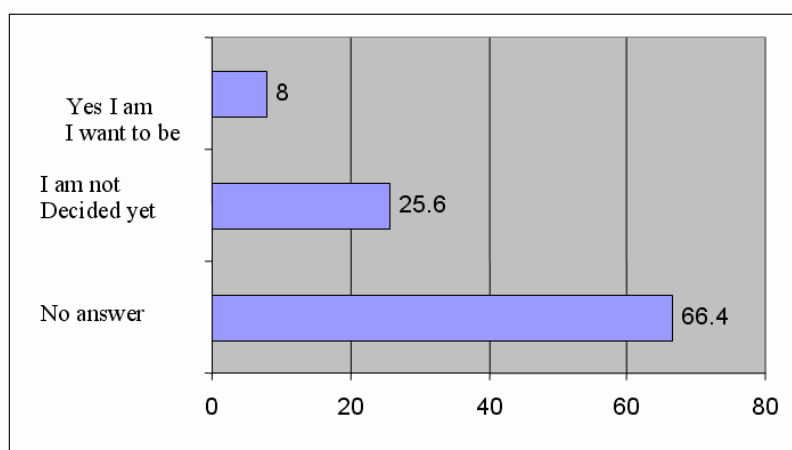
Survey method is applied as a common field of study, when on the appropriate sample of the questionnaire and with the help of appropriate instruments important data is collected, processed, displayed and analyzed.

In the frame of statistical data processing descriptive statistical parameters were counted such as frequencies, arithmetic centers, standard deviation, etc.

## 5. RESULTS

### I Education and perspective

**Question:** *Are you clearly decided on your future profession? (figure 1).*

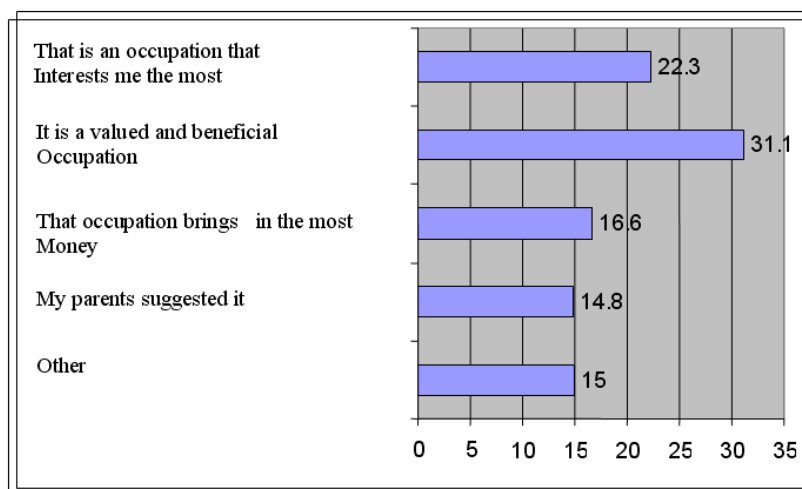


**Figure 1:**

Based on data obtained as a response to the questionnaire of future profession choices, the largest number of respondents, 66.4% in fact, did not give an answer, 25.6% of respondents give an answer that they are not yet determined, and only 8% of respondents have chosen their future profession.

The results indicate that among our youth there is a major problem in the sense of indecision for the future profession, since the majority of respondents of the final year of high school still has no idea about what they want to do in their life, which presents a big problem, for those who will enroll in University after completing high school, and also for those students who want to start work immediately after completing secondary school.

**Question:** *If yes, what had most influence on the choice of the future profession? (figure 2).*

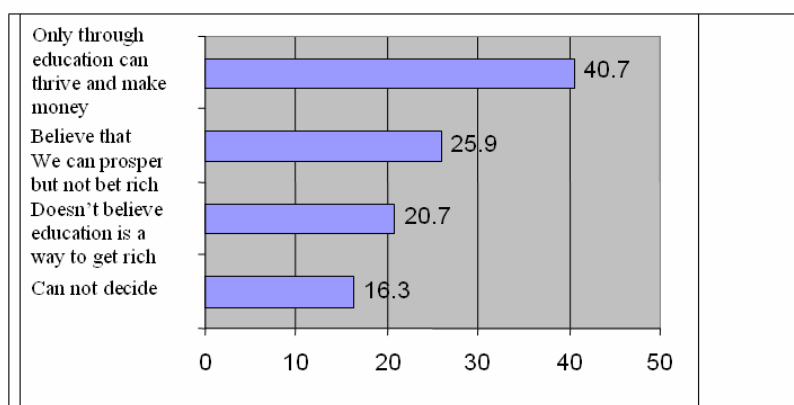


**Figure 2:**

Respondents who answered that they have chosen their future occupation, had the opportunity to express what influenced their choice for future occupation. The largest number of respondents, namely 31.1% responded that they chose their future occupation because it is an appreciated and useful occupation. A less number namely 22.3% of respondents stated that they chose that profession because it attracts them. 16.6% answered that the chosen occupation contributes the most money, and 14.8% of respondents chose the profession because of parental suggestions.

Considering that only 22.3% of respondents opted for future professions because of its attractiveness, we can say that it is very small percentage, and it is actually quite disturbing that very few prospective students or workers, are studying or working in a profession that interests them, but from some other reasons, such as beneficial occupations (in terms of finding a job easier), earnings and parental suggestion. This creates a major problem for young people because of the given situation a question of motivation raises, and directly from this a quality of future workers is questioned.

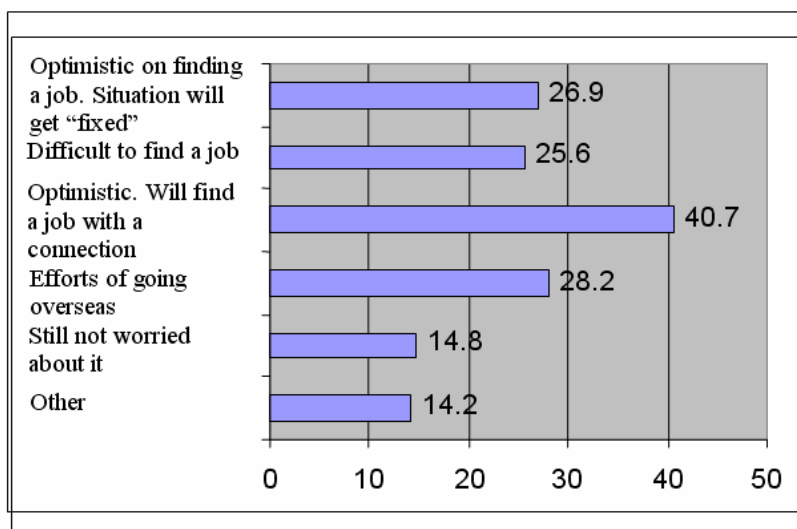
**Question:** Do you believe in the progress and enrichment on the basis of education? (figure 3).



**Figure 3:**

On the question of beliefs regarding the progress of future professions based on the education the following responses were obtained: 40.7% of respondents believe that only through education can people thrive and make money, 25.9% believed there is a possibility of progress, but not enrichment, 20.7 % do not believe that with education can we enrich and believes that most people in their environment enriched in some other ways, and 16.3% can not decide. Taking the current economic situation in our country into consideration, we believe that the 40.7% of people who believe that only with education can thrive and enrich is expected.

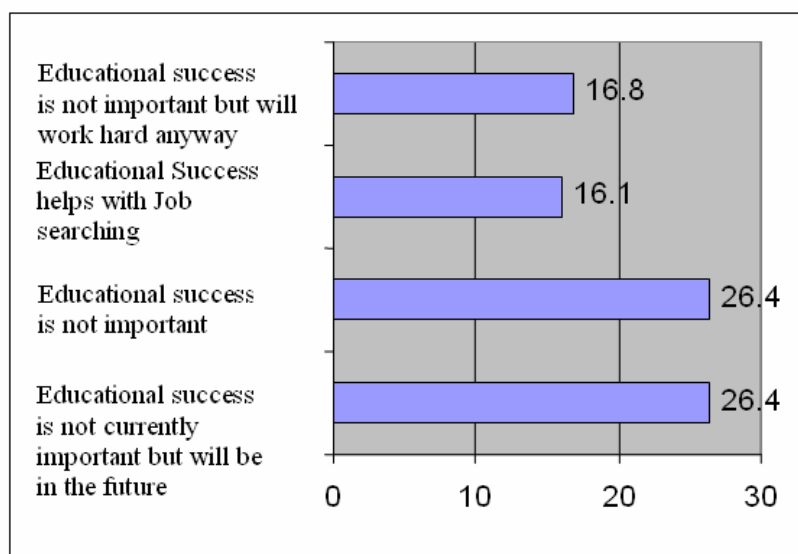
**Question:** Regarding employment opportunities, what are your expectations after finishing school? (figure 4).



**Figure 4:**

In response to a question on employment opportunities after completing secondary school, the majority of respondents, namely 40.7% gave a very optimistic response that they are not worried; they will find a job with the aid of outside help. Considering the frequency of this response, we believe that it would be interesting to examine this question a little deeper in one of the following researches. The next most common response was that 28.2% respondent's have efforts to go abroad. This is a trend that has been present with us for many years, but we are still under the impression that it is a slightly smaller number of people trying to go abroad after completing their education, in response to earlier years. Around 26.7% of respondents have an optimistic view that the current situation in the country, will get "fix" and it will be easier to find work, but almost 25.6% consider it to be very difficult to find a job. On the basis of these responses we can conclude that most young people are very aware of the current economic situation and events that are followed by the transition and that they have entered the adult world a lot sooner then their peers from other countries.

**Question:** *Do you believe in that for your future employment, the crucial factor is successful education? (figure 5).*



**Figure 5:**

In response to a question on the evaluation of school achievements regarding employment, the same number of respondents. 26.4% believe that success is not important for employment and the same percentage believes success is only not currently important, but will be important in the future. Such a response was expected given the current difficult situation in job seeking a in our country. Around 16-17% of respondents believe that the educational success eases job searching and for that reason, and for that reason they will attempt to have a better job; but just as many respondents believe that success does not facilitates job searching, but regardless of that they will strive for good educational success. On the basis of such responses we conclude the ambivalent relation to a large number of young people towards the benefits of educational success in job seeking, but also in giving socially desirable responses and the influence of parents on such thoughts.

## 6. CONCLUSION

Based on research performed as one of the main conclusions we can report that there is a direct cause - link between the system of values in young people and a pronounced tendency that in society we develop insecurity, instability, non commitment, and aspirations towards economic security. Because, on the basis of the results obtained, we concluded that most young people place economic security with health, family and love as the most important aspects of a happy life.

Creating a value orientation of people and social groups is conditioned by social and cultural environment in which they develop, whether they accept their values or they reject them, or transform, and it is mediated by a large number of factors from social nature to the individual circumstances of the situation.

Many of them tend to suffocate individuality or to try to shape it to their expectations and needs.

The imposition of external forms infringe thought and behavior of creativity, independence and freedom, and demand obedience, conformity, the commitment of "general interest", which generally speaking acts very unfavorably on the development of human kind.

In modern societies, a large number of individuals resort to the mechanisms of "escape from freedom." They usually hide behind the authority of family, community, nation, state, party or ideology which allows them to avoid personal responsibility and personal difficulties of owning up to responsibility for their own personality building. Of course, this depletes personality development and the development of the valued ideals of the humane human community.

Social position, social role, youth behavior, particularly their value systems are still largely similar, as are similar the circumstances and events that define them substantially. Although youth is generally a repressed social factor, it is located in the peripheral social position and it does not have a possibility of social activeness, and the status of all youth lasts longer, the youth does not accept the static state of the society, they show a strong aspiration for change, they oppose all forms of authority and request good living conditions.

That is why we should get a clearer insight into how youth sees the basic social values that is, how they see a system of values in society.

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## **LAW, ECONOMY AND MANAGEMENT IN TIMES OF CRISIS - CRISIS OF THE COMPANY-**

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***Summary:** Actual economic crisis is in mind of every man. Many experts are trying to explain everything this crisis is, what the causes are, and how to get out of it, and not many are clear and convincing. Why do companies fall in crisis? One of the answers to this question would be that in this turbulent business one constant change and one always must have in mind adjustment to changes. The subject of this paper are crisis in business, and basic aim would be how to answer to crisis, when it occurs because of changes in environment. Special aims of this paper are: realize what changes are, how to adapt, what crisis is, what the causes are, how to solve crisis in the company that occurred because of changes in the environment. Adjustment to changes has created new concept in modern business and it is 'managing changes' which respects the fact that today fast changes are specific mark of time we live in and that the company can not work efficiently if it does not develop and does not follow changes and uses them, so it must develop strategy to exit crisis 'To be always one idea forward.'*

**Key words:** *economy, economical crisis, management.*

### **1. INTRODUCTION**

For most companies, situations of deep crisis, do not happen over night, although that is how companies think about them or want to show things in that way. The company usually goes through phases of development of crisis, although in some companies where crisis happen as a result of wrong growth, some of the phases can be very short. First sings of crisis in most cases manifest in loss of market share and orders. This decrease of order leads to decrease of sale, and it causes bad state of income and liquidity of the company.

Decrease of sale and income and lack of usage of capacities are visible, as a rule, from accounting data.

### **2. CONSTANT CHANGES**

It is important to point out that nothing is eternal except change and that change is the one which enables something new and different to happen. Changes of developed are anything but coincidence, they have their pace and they are not just continuity of the past, but represent complete discontinuity in relation to it, so today value of the companies is not in the fact that they last long, but in their capability to change. Our time is a times of such changes.

In that sense Peter Draker says that organization needs three system markings in its flash:

- First, every organization demands constant improvement of everything that is done, that is the process that Japanese call 'Kaizen'
- Second, every organization will have to learn to use, to develop new examples from its success.
- Third, every organization will have to learn to innovate and learn that innovation can and should be organized as systematic process. Implementation of this approach becomes an imperative of the future, because markets will change, and what is the most important, choices of consumers, delivery people and owners of companies, will change faster and faster. The companies while deliberately submit to these laws and change – succeed, and those that try to submit economic law to themselves – vanish.

## **2.1. Changes and crisis**

Managers feel the need for change when there is a gap in business. The gap can occur because of current procedures which are not standard or because of new idea or technology which could improve current business. Managers try to build the feeling of urgency, so that others understand the need for a change. The companies face new challenges that is hard to successfully react on, in scope and structure of business activities. John Kotter [4, pp. 4-6] suggests new rules to which companies should stick to in order to be successful: 'Do not lean to conventions, ways in which profits were fulfilled in this century (XX century) do no longer stand. It is necessary to follow globalization and its effects. Everything changes with new changes, hazards.

## **2.2. Changes and crisis as a chance**

Strategy can be sometimes defined as a way of communication of the company with the surrounding, or the way in which it responds on its 'signals', positive as chances, or negative as threats. In world of constant changes, the observed system must adjust on them, or the cause them and lead changes [1]. Assumptions of successful management of the company are its well thought of mission, vision and aims. In that case the purpose of SWOT analysis is to provide adequate choice of mission, vision of aims and strategy of the company [5, pp. 72]. In the beginning of nineties of the last century, re-engineering occurred as a mean of management to answer changes of surrounding. Re-engineering means going back to start or finding better ways to do business.

## **2.3. Managing changes**

Modern world works in time of great and fast changes. Changes are mark of time in which we act and prosper in almost all fields of life and work.

World of business is in environment which is changing. Fast and great changes occur under the influence of modern scientific and technological progress. Results of scientific and technological progress in computers, energetics, materials and new technologies, communication and other fields, bringing changes that influence every company. Constant changes made companies to change their business and developing strategy, organizational structure, staff and other things to survive in a new situation.

## **2.4. Managers and changes**

Concept of managing changes, depends on managers and their approach and reaction to changes. If manager is capable to see fast and react to changes and conduct changes in his company, he will succeed in successful managing of the company. Manager must have leader characteristics and knowledge which will help him to deal with changes. Koncept upravljanja promjenama zavisi od menadžera u njegovog pristupa i reagovanja na promjene.

## **3. CAUSES OF CRISIS**

Every company is a part of complex system that is made of other companies, suppliers, partners, consumers, governmental organizations and other actors on the market. So, what happens in the company is not just the consequence of joint intentions of top managers, but evolution of whole system where companies and their managers are just one part.

In literature we have two-dimensional division of crisis to:

- crisis according to greatness and
- crisis according to type.

There are many causes that can cause business crisis, like on form of organization inner and outer factors influence, so we can divide cases of crisis:

- Inner causes of crisis and
- Outer causes of crisis

### **3.1 . Inner causes of crisis**

Inner causes of crisis are causes that are in organization itself in intern surrounding. Intern surrounding or inner surrounding is surrounding of the company, because unlike extern or outer surrounding on which the company can not act completely under the influence of the company. Causes of inner crisis in the company are: inadequate vision, mission and strategies of the company.

- Inadequate managing with human resources

- Inadequate resources
- Inadequate organizational structure
- Inadequate system of control
- Inadequate planning of business
- Inadequate communication policy

### **3.2. Outer causes of crisis**

Outer causes are in external surrounding represented by all actors on market that influence on business of the company. Whelen and Hunger divide external surrounding in two segments and they are [6, pp. 12]: general and social.

This is a part of surrounding that is far from the company, so it is hard to influence on it.

- Business surrounding or surrounding of the task.

This surrounding is made by actors near the company that influence on capability of the company to survive on the market. Today surrounding is changing very fast. Preferences of the consumers change fast, number of competitors, technological changes, offer than demand etc. That is why it is harder to manage companies and sustain or improve market position. The purpose of recognising outer causes is successful adjustment of the company to new changes. The faster you detect in surrounding stimulus that could endanger business, the faster you can react to it and adjust on time.

## **4. WHAT AND HOW TO DO FURTHER?**

### **Assumptions for successful early warning and protection of the company from dangers**

The most important assumption to overcome dangers that threaten the company and protection of the company from crisis is to see dangerous situation on time.

The task of system for early warning is to give necessary information and knowledge to people who make decisions, so that possible difficulties or crisis in development of the company lose every character of surprise for management of the company.

### **Systems for early warning in company can be divided in operative and strategic**

- Operative systems comprise the first and second generation of systems for early warning: systems of characteristic numbers and different types of indicators.

In that way they are mostly used as informational basis for operational planning and marked as operative systems for early warning.

That is not enough for satisfying growing demands for strategic planning and management.

- For that we need strategic systems for early warning. Early clearing of certain signals plays a central role in scope of system of strategic management.

The acceptance and proper reading of weak signals provides a possibility for the management to prepare strategic alternatives in early stages of strategic discontinuity and not wait for danger to take clear shape.

Seeing crisis in the company on time is the first step to taking measures for protection of it since in case of late observance of crisis or ignoring it makes level of crisis grow and decreases possibility to react. Parallel to it manoeuvre capabilities of the company decrease according to the levels of development of the crisis.

Recommendations about roles of marketing

- Having in mind that people – managers make organizations
- Hire young, educated people, experts
- Creating good conditions for their activities
- Increase creativity and innovation
- Increase investments in education

### **Strategic role of production**

Importance of production in the process of decision-making is very often neglected or ignored. Until only few years ago, production did not have proper role – its influence was neglected on building unique competitive advantages.

The company must build such capabilities that will give it competitive advantage. For building such capabilities, production has an important role – no other field in the company can not make up for lack in production.

Recently, the success of the company is seen in great level on productional capabilities and competences, so production has a strategic importance.

### **Marketing and production have a joint responsibility for conducting key strategies of business [2].**

Main competitive factors

- strategy of the lowest expenses,
- strategy of differentiation,

- strategy of focusing (to expenses of differentiation)

In basis of strategy for competitive advantage are certain tasks in production that have to be done.

About differentiation, certain tasks should be realized in production, such as quality of product and process, reliability and speed of delivery, flexibility, innovations of products and other specific market demands.

Tasks in production which should be fulfilled in order to realized competitive advantage are at the same time key competitive factors of success.

**Basic aims of production that should be fulfilled in order to provide competitive advantage:**

- high quality must be produced,
- reliability of delivery must be fulfilled,
- productional expenses must be lower,
- productional flexibility must be increased.

Productional (operative) capabilities are more and more becoming strong competitive weapon that enables fulfillment of competitive advantage.

Production is becoming important competitive resource that enables short time of delivery, decrease of expenses, development of new products or production of the same scope with smaller investments than competition.

**Key fields in strategy of production**

- productional technology,
- productional capacity,
- quality of product,
- equipment and its location,
- process technology,
- people resources,
- operative decisions,
- relationships with other organizations

**Production and process of introduction of new products**

Without investments in LIR, that is production, there are new products – without new products, there is no growth and development of the company.

In process of introduction of new products, certain technical researches are necessary (to observe possibilities of production) and marketing researches (to see possibilities of the market).

**'Pushing technology' and 'attracting market' are two recognized strategies in development of new products**

For strategy of pushing technology initiative is given by company, and for attracting of market, the company responds to needs and wishes of consumers. 'Pushing technology' and 'attracting market' are strategies that have important role in process of innovations, which is done through closer cooperation of engineers (carrier of technological development) and marketers (carriers of marketing activities).

Realization of strategy of pushing technology means certain schedule of business activities: research and development of production, marketing...

In both cases, the strong point of business activities are production and marketing, with their operative and strategic activities.

Development of new technology influences higher efficiency and effectiveness of the company as a whole, and especially of production and marketing. In essence, technology is scientific knowledge that helps us get to new products and improve the existing from productional program.

**Improving existing and introduction of new products has strategic importance for success of the company.**

Without new products, there is no growth and development of the company, and without investments in research and development, no new products.

Recommendations about production are only for it, and no other field in the company can not make up for lack in production, making competitive advantages where production has important role, without investments in production there is no growth and development of the company.

**In the basis of competitive advantage is a certain technological solution.**

## 5. CONCLUSION

Nothing is eternal except change and changes that are in front of our business subjects are huge and scary. Changes are at the same time the greatest challenge for the next century for all business people who are oriented to future. The companies face new challenges to which it is hard to react successfully by inter changes in scope and structure of business activity. What is a crisis? Some see crisis as a danger and other as possibility, because the company that adjusts to changes on market, and is initiating changes takes crisis as possibility, while those companies which do not adjust to changes see crisis as danger. According to some opinions, crisis management should plan for case of danger in order to minimize losses and soon as possible return to normal business.

Adjustment to changes created new concept in modern business and it is 'management of changes' which respects the fact that today changes are quick and are mark of time in which we live and that the company can not efficiently react if it does not follow changes and uses them. Adjustment to changes is basis for successful management of the company. Concept management of changes influences on management so that it has to prepare people for changes, break the atmosphere which is among people that changes endanger the position of the individual. Changes must become a part of work of the individual and style of managing of managers. If we do not adjust to changes there occur problems in business, and problems withdraw question of crisis for a company. The aim of every company should be managing changes. The causes of crisis are signals that our inner and outer surrounding is sending to us. It is necessary to see them on time and adequately react so that the company does not fall in crisis. When company is in crisis, that it has to build its own strategy to exit crisis. 'Having one idea in advance.'

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## MODERN ASPECTS OF LIFE INSURANCE AND POSSIBILITIES OF ITS DEVELOPMENT

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***Summary:** Life insurance in the world of market economy, as job of insurance, has a dominant place. Life insurance are all types of insurance where action of insured case is connected to a certain event in life of insured person. The basic types of life insurance are insurance for case of death and insurance in case that insured person lives to certain old age. The basic source of right in this field are the Law about obligation and Law about the insurance of property and people, whose regulatives are imperative. Besides, this important source of rights are general conditions of business that condition this contract to have characters of adhesion contract.*

***Key words:** life insurance, basic types, development.*

### 1. INTRODUCTION

In European countries, life insurance is a very developed type of insurance. Many people consider that obligatory social insurance does not provide good economic protection, so they make contracts about volutary life insurance. In the case that insured person dies, or in case that it lives to certain old age, user of the insurance has a right to the insured sum according to the life insurance and money from social insurance.

In our country life insurance is not developed, because life standard is not such that citizen could pay the premium for voluntary life insurance. When people today take credits for flats or houses, the bank provides security by placing a mortgage or life insurance of the owner of the credit, in case he dies. Means for release of the credit, the bank forms from the means of life insurance that organizations for life insurance gave it.

Types of life insurance are (the Law about insurance of the Republic of Serbia, act 9, Cleared text):

- 2.1. life insurance,
- 2.2. rent insurance,
- 2.3. additional insurance with life insurance,
- 2.4. voluntary pension insurance,
- 2.5. other types of life insurance.

### 2. LIFE INSURANCE

Life insurance is a kind of protection of individual (insured person) and his family from the risk of sudden death, as well as of decrease of termination of ability to work. The basic characteristic of life insurance is that unlike all the other types of insurance, represents a combination of insurance from insured risk and savings [1]. From the aspect of individual (insured person), life insurance policy as valuable paper enables long-term savings, but at the same time can be used as security for getting all sorts of credits, wheather it is personal investment or private business. When credits are released, some banks even insist that life insurance policy is deposited as the safest way of security.

Savings by life insurance is **intentional, bonded and long-term**, with a deadline that is defined in concrete contract about life insurance. For savings by life insurance, the deadline is set, mostly to 10 years and the savings aim is defined which is stated through insured sum of money.

Doing function of economic protection and accumulation of means, life insurance indirectly makes a very important social function. So, life insurance can serve as additional support to state pension insurance, and also as a bases for development of additional, voluntary private pension insurances.

Special rules on which the legal relations are based in insurance of people, relate to life insurance too. Those are:

- insured sum is an important element of the contract and is the upper limit of the obligation of the insurer,
- the rules of over-insurance do not apply,
- user of the insurance has a right to cumulate insured sums on more contracts of insurance,
- for closure of the contract no property interest is asked for according to the object of insurance, so the contract can be concluded in case the third person dies [8, pp. 19].

**Table 1:** Life insurance policy is done for 10-30 years  
(We give an example of male person, age 30, who contracted life insurance on 15 years)

	MONTHLY PREMIUM EUR	ANNUAL PREMIUM EUR	INSURED AMOUNT EUR	EXPECTED PAYMENT EUR
A)	25	300	4.517	6.171
B)	35	420	6.324	8.640
C)	50	600	9.034	12.342
D)	75	900	13.552	18.513
E)	100	1200	18.069	24.684

The most important factors which influence development of life insurance, are:

- height of national income of the country and the level of life standard,
- stability of domestic currency,
- development of social insurance in the country, and
- level and scope of employment, as well as other economic, that is, economic and demographic factors.

In conditions of inflation, life insurance is efficient only if insured sums 'slide' while the contract lasts is such height that they keep real value that they had at the time when the contract was closed. It is possible to provide only if they have certain real value and means which are in the system of insurance set aside for such a purpose.

The amount of premium is made according to statistic data which must have quality and quantity statistic marks. Function of quality marks is in categorization of element in relation to that mark, while quantitative marks are measured through secured application of the law of great numbers. In life insurance, statistics, on which the technical possibility of conducting of insurance is set, is in tables of mortality that can be applied on population that wants to be insured.

Tables of mortality, together with interest rate, are calculation basis for calculation of technical premium. Tables of mortality have lots of facts, out of which the basic one is calculated probability of mortality, according to which are calculated all other biometric function: probability of life, movement of number of living and number of dead.

According to such received values of movements in number of living, dead and certain interest rate, the comutative numbers are calculated that are used for calculation of technical premium of life insurance. Comutative numbers are basis on which technical basis is set for calculation of mathematical reserve, calculation of reduced and bought values of life insurance, and spread of income on individual insurance.

Premium in life insurance can be divided to risky and savings premium, and total premium of life insurance is made of technical premium and addition for closing provision, incasso provision and administrative expenses. Since in life insurance besides the protection of risk we have collective insurance savings, life insurance is a characteristic financial job, which is handled by long-term sale of means and making profit in that way.

The most important sources of profit in life insurance are:

- profit from interest rates on sale of savings premium,
- profit on positive result of insured risk,
- profit according to additional insurance, and
- technical profit.

Premium of life insurance, comes from expected total obligation in certain time that can occur. Premium of life insurance is made of two parts – **savings and risky premium**. Division of premium on risky and savings premium can be done for all risks, having in mind certain characteristics of closed insurance.

### 3. RENT INSURANCE

Rent insurance comes into personal insurances and it is usually called insurance of personal rent and is a type of savings. Rent insurance is insurance in which insurer by payment of one-time premium or payment of premium in parts wants to secure the future of his family. Economical category of rent which is connected on life of a person is called *personal rent*. Unlike personal rent, there is *rent that the third person can use*.

According to duration, rent can be:

- timely, if payment of rent lasts only for a certain time period, and it can be
- life time, if payment of it lasts for life.

According to beginning of receiving, rent can be:

- direct and
- postponed.
- Direct is the one that starts to flow right after the contract is closed, and if from the day the insurance is closed till rent is paid some time passes, it is postponed rent.

### 4. ADDITIONAL INSURANCE WITH LIFE INSURANCE AND VOLUNTARY PENSION INSURANCE

Additional insurance are contracted according to conditions for additional insurance from accidents. Risks that can be contracted are:

- In case of death because of accident,
- In case of permanent loss of general working capability (disabled persons),
- In case of temporary lack of capability for work (different forms of daily fees),
- Expenses of medical treatment that occur as consequences of accidents.

Voluntary pension insurance can provide to insurers and members of their families the greater scope and other kind of rights which are brought by Law about voluntary pension funds. It is a new form of pension insurance that provides personal social safety in old age and planned pension in advance, made by individual contributions.

Basic pension programs are:

- Joint life time pension,
- Individual life time pension,
- Temporal pension.

Joint life time pension comprises life time old age pension, pension for disabled and family pension. Individual pension comprises individual pension. Temporal pension is only paid for contracted period, but there is a possibility of a one-time payment of a part of means or all means at the time the right on the pension is made.

*Personal accounts in voluntary pension insurance.* Basic characteristics of additional voluntary pension insurance is existence of personal accounts for every insurer, no matter if employer or individual person pays the taxes for his employees. Taxes form pension funds, means of funds are invested and made benefit is written to payed taxes on individual accounts. All interested person are possible to calculate expected old age pension by calculator of pension in dependance of the height of premium, the time insurance lasts and chosen type of old age pension.

*Pension fund and management of means of the fund.* Pension fund at voluntary pension insurance is formed from the taxes of insurers. Means which are on personal accounts of the insurers are invested on the market, received profit is on every quartal of the year written to every account and in that way all means are increased. In that way the amount that is on insurer personal account is also increased. For management of pension fund, 'association for management of pension fund' is made that has characteristic of legal body and whose business is determined by law.

*Height of pension.* At voluntary pension insurance the insurer creates the height of his future pension himself, because he voluntarily pays taxes to enable him to determine how big his pension is going to be.



## 5. FOREIGN EXPERIENCES IN FIELD OF LIFE INSURANCE

Unlike the situation in BIH, Serbia and Montenegro, life insurance is in economically and socially stable countries important part of a system of provision of social security of population. In such circumstances, financial advantages of different types of life insurance are seen on individual and wider plan. So, review of foreign experiences in development of life insurance can give us necessary knowledge about success of different models of organization of this special type of insurance of people in states and in scope of EU.

The first directive for life insurance has a great importance for the market of life insurance. It has as aim to do life insurance on total area of EEZ. In jobs of life insurance, insurance companies must have means of technical reserve, margin of profitability and guarantee fund. Means of technical reserve must be such that obligations are fulfilled on time. These means must be in same currency as obligations and must be in the same country as the insurance company.

The second directive about life insurance relates to freedom of services of life insurance and in it important changes and additions of the first fact are done. This directive is temporary solution because it is a link between the first directive, whose aim is to make work easier, and the third directive, that brings in the complete system of insurance of the European union which means complete freedom of business and services on the territory of the EU. This directive determines that on contract of life insurance the right of the state applies in which the insurer lives.

Life insurance on the territory of EU can do associations for insurance which do not have headquarter in the community, only if on the territory on the EU they set a branch. Setting a branch is the same as licence for work that can be released only under conditions of reciprocity. As for control of business and foundation, this directive sets that control of foundation and business for insurance companies which insure life are done by supervisory organ of member state where main headquarter is.

The third directive for life insurance created the legal basis for functioning of unique market of life insurance on the whole territory of EU. This directive terminates all limitations, as well as the third directive about insurance that is not about life. It says that management of insurance company that does life insurance must fulfill criteria for capability and reliability for jobs of management. Also the company must on demand of authorized state organ give data about stock holders with major part and amount of those parts. Besides, in detail the information are stated that insurance company must give in written form to future insurer before the contract about insurance is completed. Directive asks for firmer control by state organs, than when it comes to insurance of property. That organ can from insurance company ask to see technical conditions which are used for calculation of premium and technical reserves. The biggest attention, the directive puts on means of technical reserve and sale of these means.

The aims to set life insurance field in special way, contributed that European parliament and European council reach on November 5th, 2002. the latest directive that relates only on life insurance. This directive substituted earlier directives that related to field of life insurance. At the end of the text of directive, there is a table with comparative review of existing norms from certain directives that are about life insurance. The reason to get this directive is a fact that life insurance is one of the most developed types of insurance in countries which are members of the Union, to make special economical effect in business, and that every country is interested for this type of insurance because through it great money means of citizens are cumulated.

## 6. CONCLUSION

Conduct of function of insurance and protection of property and people in our country depended on many external and inner factors and their influence on this important social and business activity. Among many factors, those are still present consequences of sanctions, destruction of business and other objects and infrastructure as object of insurance, suspensions of the Association of insurance organizations of Yugoslavia from the system of green card of insurance, social and economical things, changes in regulative, as well as activities of authorized organs, insurers, insurance companies, and the Association work to solve this complex problem.

Life insurance is long-term savings, with insurance on unpredictable cases in life at the same time, whether it is sudden illness, lack of capability for work or death of insurer. The investments in life insurance are one of the safest forms of savings, and still it brings profit. Even if the insurance company crashes, the asset is safe.

Life insurance provides protection from financial losses which can occur as a consequence of unexpected events connected to life of insured person. Life insurance provides long-term savings that can be used for insurance of safe existence and maintenance of living standard in late years. Sudden loss of person who feeds the family or user of credit in active years, the family can financially survive easily if there is life insurance policy.

It is known that insurance companies, in developed market businesses, are important institutional investors. The success of their business depends on the level of development of financial market, as well as capability to chose in the best way about the structure of their investment portfolio.

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## ORGANIZATION, MANAGEMENT AND PROTECTION OF ARCHIVE DOCUMENTS

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**Summary:** Archives, as institutions for protection of archival materials, supervise the implementation and enforcement of obligations under the law. Offices for protection of archival materials outside of the archive make annual tour of field artists and on the spot they determine if conditions are met in terms of adequate accommodation of documentation, is there a regular indexing of that documentation and is there a regular procedure of excretion. This service, also, provides expert assistance to creators of archival materials in order to better protect and save documents. Permanent education of employees on matters of protection of archival and registry materials, enforcement of positive regulations, monitoring modern standards in the field of archiving is a prerequisite for successful storage of documents, as the only trace of our time for future generations.

**Key words:** Archival materials, archivists, functional domains, archival holdings, Standard SRPS ISO 15489,

### 1. INTRODUCTION

Archival material is: an original and reproduced, written, animated, computerized, printed, photographed, filmed, microfilmed, phonographed or otherwise recorded documentary material of special importance for science and culture, which is originated in the work of state bodies and organizations, autonomy and authority of territorial local governments, political organizations and their bodies, institutions and other organizations, religious communities and individuals, regardless of when and where it is originated and whether it is in protection of institutions or outside them.

### 2. ARCHIVAL AND REGISTRY MATERIALS LEGISLATION

The main source of legality in the field of archival materials is *the act on cultural properties* (Official Gazette RS, no. 71/94) [8], which regulates and defines the term of archival materials, then the obligations of the creators of archival materials in storage of archival material, and excretion and the handover procedures. This Act contains penalties for all individuals, ie private and legal entities who do not comply with the prescribed provisions.

The Act says (article 24), „Archival material is: an original and reproduced, written, animated, computerized, printed, photographed, filmed, microfilmed, phonographed or otherwise recorded documentary material of special importance for science and culture, which is originated in the work of state bodies and organizations, autonomy and authority of territorial local governments, political organizations and their bodies, institutions and other organizations, religious communities and individuals, regardless of when and where it is originated and whether it is in protection of institutions or outside them “.

The law clearly specifies that obligations of owners (article 31) are to preserve and maintain cultural goods, inform the institution of protection of any changes, to suffer, that is to permit the scientific and technical research and to ensure availability of cultural goods to the public.

Article 37 of the Law stipulates that all creators of archival and registry materials are required to: indicate and date registry material, to keep records, ie. archival book on archival and registry material and to keep that material stored in the renovated and safe place. Further, to perform selection of archival material with the secretion of

those parts which are overdue and have no importance for the ongoing work. Then, obliges creators to make general regulations and rules regarding the manner of recording and storage of archival and registry materials, among which is the most important a list of categories for registry material retention period.

The law regulates the manner and the procedure of delivering archive materials to a competent archive. Arranged and inventoried archival materials are submitted to a competent archive after 30 years, counting from the day of collection (Article 39).

Archives, as institutions for protection of archival materials, supervise implementation and enforcement of obligations under the law. Namely, offices for protection of archival materials outside of the archive make annual tour of field artists and on the spot they determine if conditions are met in terms of adequate accommodation of documentation, is there a regular indexing of that documentation and is there a regular procedure of excretion. A record of a review is made and if there are any irregularities and orders are given for their removal within a certain period. Also, this service provides expert assistance to the creators of archival materials in order to protect and save documents.

In addition to the law on cultural properties, there are articles which regulate the manner of cataloging and excretion of documentation, including: guidelines on management and use of archival books (Official Gazette RS, no. 47/81), and manual of procedure selection archival material, secretion unworthy registratory material and how to handover of archival material (Official Gazette RS, no. 47/81). Considering the great importance of each document and the necessity of their protection, method of archiving and preserving documents are provided by other laws, also. Some of them are the Law on accounting and auditing (Official Gazette RS, no. 46/06), and the Law on planning and construction (Official Gazette RS, no. 47/03), Law on public procurement (Official Gazette RS, no. 39/02), and some parts of criminal law. Therefore it is necessary to constantly monitor the adoption of new laws, and interpret the Law on cultural properties in relation to other legislative solutions [8].

## **2.1. Archive book and procedure of handover archival materials**

*Based on the article 3, regulation of the categories of registry material with the retention period (Official Gazette RS, no. 44 / 9), archival book is classified as a category of registry material, classification mark 031-office operations, row. no. 60, for a specified term storage: permanent.*

Archival fund is created in the course work of economic entities, public institutions, social organizations, bodies of state administration, judicial authorities and other legal entities or private persons. Archival materials and its usage and protection in the registry depend on organization and implementation of office and archive business. In the time of originating, documentation has practical meaning, but it is also a potential historical or cultural material. Over the years, with reducing practical usability, the focus of the meaning of archival material becomes scientific, ie. material becomes archival. One of the basic measures of protection registry materials, and thus the protection of archival material, is the introduction of archival books, as the most general records.

Archival book is a general overview of the entire inventory of registry material generated in the work of legal entities, as well as registry and archival materials that are found in the premises of the organization on any basis. Each institution, which is the creator of archival material, is required to write the book all the archival material that occurs during a year and to continuously deliver a copy of that book to a competent archive. Ordinal of same-classed materials which are assigned to a registry unit (folder, registry, box ...) is not repeated and cannot be assigned to another type of documentation. If is affirmed that some registry did not introduce an archival book, registration is done retroactively, first by writing the oldest material and further. The existence of the archive book within legal entities, as well as archival numbers which marked registry units, speaks about the degree of organization and systematization of archival materials within the organization that is its legal successor [6].

Registry and archival materials are recorded in the archival book in regarding of year of origin and classification marks. It is important to accurately describe all important features within the units. Archival tags on the units should be synchronized with the manner of registration features in the book.

Enrollment to the "archival book" is conducted in following way:

- In the section "Ordinal of registry materials" numbers of same-classed registry materials that were created during one year, are enrolled from one onwards, regardless of a number of registry units.

Ordinal numbers are continuous in the book, year by year.

Registry units are marked by ordinal number that is also a mark for a same-classed material in the archival book.

- In the section "registration date", write the date, month and year of registration of registry materials.

Registry material from previous year shall be enrolled in archival book until April next year. The creator of archival material has the obligation to submit a copy of the archive books for the previous year to the competent archive. Of course, it is necessary to previously perform verification of compliance of existing inventory and the real situation in depots or offices where the material is stored.

- In the section "Year of occurrence", write the year or period in which the material is originated. For registry material that includes data from multiple years, write the initial and final years, that is the age range.

- In the section "Content - classification mark" write short content of registry material and classification mark.
- In the section "Volume of registry material" write the total number of registry units of same-classed registry material (registry, folders, boxes, books, etc.).
- In the section "Premises and shelves," write the data about a room, shelf and cabinet where registry material is located, and any changes related to housing, therefore it is extremely important to mark shelves in the depot, or cabinets in offices where material is stored.
- In the section "Comments" write the data related to the secretion or handover of archival materials to the competent archive. If the archival materials are secreted, write the date and number of the secretion, as well as the amount of secreted material. If archival material in question is being submitted to the competent archive, write the date and number of acts on the handover of archival material.

Due to the introduction of e-business, the creators of archival materials may all records, with necessary prescribed sections, conduct in electronic form. If the creators of archival records conduct it in electronic form, they are obliged to print the same and keep it in paper form also. Digital archival books are easier updated and synchronized with the existing situation and storing documents. If you later find archival materials created in previous years, that material needs to be synchronized with the existing chronological order, and since given archival numbers are final, new numbers are given to that material.

A copy of a registry material from previous year shall be enrolled in archival book until April next year. Archive is provided with a photocopied part of the book that refers only to the previous year, to complete the records within the registry file. Archival books are filled manually or in electronic form. If the archival book is filled with a computer, one must have a copy in printed form.

Archival materials are given to a competent archive for further care, after a period of 30 years since its creation. Archival material is delivered completely catalogued and arranged. Archival material is submitted to the location designated by the institution of protection. Deliverer of archival material gives an opinion on the conditions of its use.

Exceptionally, when there are requirements from the holder of archival material, deadline for delivery of materials to a competent archive can be shortened by an agreement between the owner of archive material and competent archive.

A committee is supervising the handover. That committee is composed of representatives of creators of archival materials and competent archive. Materials that are submitted must be arranged, classified, listed and marked. Archive makes decisions on the usage of submitted archive material, although, the creator of the material gives his opinion on the terms and conditions.

## **2.2. Establishment of funds after the takeover of archival material**

Archival fund consists of all archival documents that were made by business decisions of authorities, institutions, companies, organizations, families, personalities, etc.. The most important feature of this set is their common origin. Therefore, as a rule, all acts of a registry in the archive make one fund. The creation of an unique fund, on basis singular registry creator, means that all acts created by that person, as an independent legal entity, make unique fund that is arranged, listed and stored separately from other funds [7].

To obtain a status of archival fund, material must meet certain criteria: 1) legal entity status; 2) changes in functions that are a reflection of fundamental changes of socio-political and government system and 3) changes in the character, organization and authority of the creator of the fund.

Basic and the most complex criteria for the establishment of the fund is the status of legal persons, that is the autonomy creator itself. That implies the existence of legal or a real act on the establishment and existence of legal entity.

Another factor in determining funds criteria has political character. Political and social changes (in state government, borders, legal system) reflect on archives and have the effect on changes in work and organization of the creator of the fund.

Changes in name, legal status and legal form have no influence on funds establishment, thus avoiding the formation of a large number of small funds, and is especially important not to sever links with the origin. The problem is making a distinction between the various social epochs and funds distinction between predecessors and successors. Each new social establishment creates its own state and administrative apparatus. New funds are formed only when a new administrative organization takes place and when a social change affects the tasks and functions of the registry creator (for example the delineation of funds in transferring from capitalism to socialism - a borderline is 1945. year). When it comes to materials about individual personalities, this criterion is not applicable, materials about them make a whole regardless of changes in socio-political and state system. By changing the functions that occur during a radical change in the socio-political and government environment, archival materials of state authorities, administration and judiciary, make special funds, regardless of the similarity of names and functions. The fund always ends when it is determined that these social changes caused changes in work and organization of the creator of the fund.

The third factor is the administrative and legal nature - such as name changes and the scope of activities, reorganization of administrative-territorial changes. Materials of cultural, school and medical institutions and also commercial enterprises, create an unique fund with the change of the territorial jurisdiction of local authorities..

Chronological limits archival fund are the oldest and the last documents originated by the creator. Name of the fund is the last official name of the creator of the fund and its last main office. The Fund is considered to be indivisible and must be stored in one archive and can not be shared by several institutions. Documents (objects) that are registered in the records of institutions that no longer exist, and are completed in another institution, belong to second institution. Incumbent files belong to the fund of the institution in which they worked at the end of their working life. Institutional documents, which are in the possession of private and family funds and collections are returned to their home funds, except when the material is processed and used for scientific and other purposes.

Every private entity is an independent creator of the fund. Materials that were formed by the work of several persons, during the life of one family, establish a family fund. The main task of assortment of archival materials is to determine a string and permanent place of each archive group, a fund, a collection, and to determine every consisting document. That is based on archival concepts – principles and methodology of an assortment. Historically, there were a couple of stages in the development of principles for archival assortment. The first was created thematic or logical principle of assortment. Then the principle of a fund, from which was later developed a principle of registry and, eventually, a principle of independent provenance. Experiences of French and German archivists made the biggest influence on Serbian archivistics. In France, under the influence of library they first applied thematic assortment of archive materials, but over course of time they found it to be impractical.

Archival practice suggests that the most efficient way is to organize all materials in one fund, since in that case importance any individual subject comes from its group. That allows us to understand historical, legal and procedural context. Funds are considered to be a central piece of archivistics.

Our national archives were established later than in most European countries and that is way we were able to avoid using thematic principle of assortment. From the beginning funds were established and their completeness was taken into account

Grouping materials in accordance with its origin was labeled as the principle of provenance, ie any written document took the same place as in registry. This system of assortment formally was adopted by almost all European countries at the International Archival Congress in The Hague (1910.) principle of provenance was based on the idea that if you keep registry assortment, you can still use registry auxiliaries - protocols and registers, and new group of subjects can be easily connected to your existing fund in the archive.

The principle of assortment based on the system of free provenance was first mentioned in lectures by director of Prussian state archives of Adolf Brenneke. He believed that archivists need to be creative and archives must be more than mechanical conservation of materials when the system errors and bad office operations is evident. He claimed that strict observance of the principle of provenance could be applied in the past, but modern scribes lost the required skills and modern registry do not have as strict regulations as in the past. Also, the meaning of the principle of provenance is jeopardized by growth of complexity of structures of administration in modern bureaucracy. Archivist must see the business as a whole, to analyze the administration and its effects, the structure and content of materials. Character of a registry, an organic body, needs to be understandable and that is way analysis became the most important part of work. The primary connection is not between documents, but between documents and processes. That is a functional provenance, since a document is not considered to be the document by its nature, but by its function, that is by its role in some process.

The principle of free provenance occurs in many forms, of which the most common are: form of organizational structure of the creator of the fund, then the form of activities and functions of the creator of the fund and thematic form.

### **2.3. Management of documents (STANDARD) – SRPS ISO 15489**

National Archive of the United States in mid - 2002. launched a project of implementation ISO 15,489 in the US, as a new impetus for greater awareness of importance of managing documents, which is also rapidly expanding in European countries also. Standard is available in all formats through ISO and national organizations for standardization. According to their statistics it is the most selling standard. Serbian archivist, as well as all legal and private entities got this standard in November 2007. It is a powerful tool – **standard SRPS ISO 15489**, related to document management.

ISO 15489 has 2 parts:

- *Part 1: Overall;*
- *Part 2: Guidelines.*

ISO 15489 – 1 specifies elements of document management and defines the results and outcomes to be achieved. Applies document management in all formats and all media received or incurred during the implementation of the activities of public or private organization or any individual who has an obligation to create and store documents.

ISO 15489 – 2 provides methodology for application, step by step.

Standard ISO 15489 is only the first in a series of professional standards that should be comprehensive to regulate management of documents, and to provide new legislation in this area, based on new values of preservation and usage of documents. Electronic environment, in which the majority of business transactions are now taking place, is forcing archival and management experts to reexamine and change their traditional strongholds in the theory and practice, based on paper as a traditional carrier of information. It applies to management of documents in all formats and all media, made or received during the implementation of the activities of public or private organization or any individual who has an obligation to create and store documents. Provides guidance how to determine responsibility that organizations have towards documents and policies, procedures, systems and processes related to documents. Provides instructions for management of documents, supporting the quality of the process, which is in compliance with ISO 9001 and ISO 14001. It also gives guidelines for designing and implementing systems for management of documents, but does not include the management of archives in archival institutions [5].

## **2.4. Management of documents – the function and benefits**

Systematic approach to document management is essential for organizations and society whose task is protection and preservation of documents as evidence of activities performed. Management of documents consists:

1. adoption of policies and standards,
2. allocation of responsibilities and authority,
3. establishing and publishing procedures and guidelines,
4. providing a series of actions related to the management and usage of documents,
5. designing, implementing and administering specialized systems for document management,
6. integration of document management into business systems and processes.

Document management is an essential function of every business, public, or private, for more efficient and effective storage and protection of documents. Document management is the creation and maintenance of complete, accurate, reliable records of business activities. Documents provide organization to: do their work on more accurate, efficient and responsible way; provide services in a consistent and uniform manner; support and document policy formulation and decision-making on management, to achieve consistency, continuity and productivity in management and administration; facilitate effective performance of activities throughout the organization; achieve continuity in the event of an accident; meet the legal and normative requirements, including requirements related to archival activities, reviewing and monitoring; provide protection and support in disputes, including the management of risks related to the existence or lack of evidence about activities in the organization;

protect interests of the organization and rights of employees, parties and current and future stakeholders; support and document current and future researching and development activities, progress and achievements, and historical research; provide evidence of business, personal and cultural activities; establish business, personal and cultural identity and to preserve the economic, personal or collective memory. Considering this, organizations need to identify the normative environment that affects their activities and requirements for documenting these activities. Normative environment is:

- the highest legal acts, laws and other regulations governing specific activities and general business environment, including laws and regulations related to documents, archival materials, access, privacy, evidence, electronic trading, data protection and information,
- obligatory standards for that activity,
- voluntarily accepted codes of best practice,
- voluntarily adopted rules of conduct and code of ethics and
- identified expectations of a community about acceptable behavior for a specific sector of activity or organization.

Organizations should create and preserve an authentic, credible and usable documents and to protect their integrity. To ensure the authenticity of documents, organizations should implement and document policies and procedures that control the creation, receiving, forwarding, storage and maintenance and allocation of documents. In that way creators of documents are authorized and identified, and documents are како би се осигурало да су ствараоци докумената овлашћени и идентификовани, те да су документи protected against unauthorized addition, extinction, alteration, use and destruction. Only a document which is possible to locate, search, present and interpret has utility.

## 2.5. The processes and mechanisms in the management of documents

Involve: determination of which documents should be accepted into a system; determination of deadlines for saving documents; acceptance of documents into a system; listing documents; classification of business activities; development of vocabulary control; indexing; assigning codes; storage and handling; access and monitoring; monitoring and control; training.

IT IS NECESSARY TO:

- introduce current standard to business and professional public – promoting standards through the Chamber of Commerce of Serbia and relevant ministries of public administration and local government, information technology and telecommunications,
- develop new legislation, based on these standards,
- introduce a certification of program for document management, and by Government decision, to establish a body in charge of certification,
- conduct ongoing education of experts in this field of archives, with private, or legal entities,
- promote a new profile of experts – **document administrator**, with legal and private entities (The role of the administrator of documents is to determine and define the framework for the management of documents to his organization, based on the size and nature of work environment of the organization. Administrators of documents have the role of consultants in establishing, implementing and monitoring standards for document management. Their role is to educate employees of their responsibilities for managing documents).

Adoption of this standard favors archives, so archives should respond positively to the adoption of standard, to accept and make sure that, along with other professions and institutions, do everything to accept and apply basis and mechanism provided by standard! A fear that the archives will be extinct is justified, since they are losing battle with the creators (especially of electronic documents).

ISO 15489 is synchronized with ISO 5127 - information and documentation - terminology, which was translated and adopted as a national standard, then the ISO 9001 and others from this family of standards, as well as with European standards in the same area MoReq, which complies with ISO 15489.

## 3. CONCLUSION

Archival Fund consists of all archival documents which are organically created by a business of the authorities, institutions, companies, organizations, families, personalities, etc.. The main task of assortment of archive material is to determine the order and permanent archive of each group - fund - collection and each document within. An archivist needs to see a business as a whole, to analyze the work of administration and its effects, and also the structure and contents of the material, using the system of free provenance. The primary connection is not between the documents, but between documents and processes. That is the functional provenance. Document is not a document by its nature, but by its function, that is by its role in some process. Electronic environment, where the most of business activities and transactions are taking place today, forced experts from the field of management and archivistics to apply the latest standards in all formats and all media, made or received during the implementation of the activities of public or private organization that has an obligation to create and preserve documents. The latest standard ISO 15489, which is compliant with European standards in the same area MoReq and consistent with ISO 15489, provides instructions for management of documents, as well as support for guidelines and the quality of the work processes.

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## MANAGEMENT AND UNION ROLE IN SOLVING CRISIS

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**Summary:** Specifying and explaining in brief the significance and role of management and union activity under conditions of crisis is not really the simplest thing to do. There is always something that remains left out, forgotten... However, the essence of management and union activity will be shown in crisis situations with this paper. The first part of this paper will provide basic indicators on crisis and manners of surpassing it. Further on, it will present the significance and role of management from the aspect of a company, phases through which crisis management is passing through in recovering from the crisis. The second part of this paper shows the role of the union in crisis situations. A special retrospect is given on activity of labour unions in BiH.

**Key words:** management, economic crisis, union.

### 1. INTRODUCTION

It is a fact that today's complete global economy is in the state of crisis. In some places the betterments, heaves are already felt; although, in my opinion, it will take more time before the total situation is brought to the previous condition.

Certainly, such circumstances have had the impact on our country as well, which is already in crisis in a way. However, the shakes influencing on us from the outside, have additionally endangered the survival of the companies and the overall economy of BiH. The blows have been equally difficult for both financial and real sector of the economy. This paper will show the concept of companies' crisis, ways of overcoming it and the role of management and union in solving the crisis situations.

\* \* \*

There are so many definitions of crisis as much as there are the authors in this field. They say: "Situation that has reached the critical point", "The decisive moment", etc. The theory most frequently uses the term "Crisis" when someone is considered to be jeopardized, when someone is in danger.

Crisis planning has as its task to prepare in advance the adjustment of a company to the changes in the future, to supervise it and correct in a given case.

Crisis management can be specified as a special form of managing over a company the task of which is to surmount all such processes that can substantially jeopardize or disable the further survival of the company. The increasingly present today is the interest for managing companies that have come under crisis.

In the professional processing of crisis, two essential procedures are possible [8]:

- *Reactive manner of observance*, starting from existence of tendencies that are causing crisis in development of a company, i.e. the latent or manifesting crisis situations.
- *Preventive manner of observance*, by which the occurrence of crisis should be prevented by success (forecast/ insolvency diagnosis, systems for early warning, strategic management over crisis).

Two basic forms of managing crisis are **active** and **reactive** crisis management. The active crisis management has an offensive character. It is directed against the phases of crisis processes, from which there are still none immediate dangers. Their task consists in, if possible, preventing the possible or covert, already existing crisis processes, by means of conceived measures of precaution.

Opposite to it, *the reactive crisis management* has a defensive character. It is directed against crisis of a company in phases wherein they have become directly visible to the company by means of their action. Their task consists in controlling the ensued crisis of the company or alleviating its inevitable (destructive) actions.

Also, there are some additional classifications of management forms such as, for example [11]:

- Repulsive management,
- Liquidating management

## 2. MANAGEMENT AND UNION ROLE IN SOLVING CRISIS

When it comes to crisis situation in a company, it is necessary to find the adequate manners of reacting on it. Wrong steps can lead to downfall of the company and its liquidation. Yet, what is gained by it? The greatest problem is that in the first step there comes to dismissal of the workers, having huge consequences; especially it is about great companies. On the other hand, such state influences on the entire economy of the country- there comes to decrease of production, decrease of export, decrease of GDP, decrease of employment... Although herein the general aspect of role of management and union in solving crisis will be considered, it has to be perceived globally, as the influence on the entire economy of the country.

I think that crisis is solved, primarily, from micro aspect, which is then broadened towards mezzo aspect and finally results in global recovery- macro aspect. Thus, the key steps in solving crisis should lay in recovery of the company, creating new companies, new usable values, opening of new workplaces...

The economic companion papers, especially the domestic ones, are not especially wealthy with researches on crisis and actions under crisis circumstances. All being studied today is mostly related to foreign companion papers and experiences of developed countries that, in some parts, could adjust to our circumstances and in some not. Our country's problem is transition, the inherited system of self-management that is difficult to be rooted out. The whole population of our people can be estimated; conditionally speaking, as "socialist" that is not acceptable in today's liberal capitalism. Taking this circumstance and the occurred crisis into account, it is necessary to find adequate solutions and manners of coming out of it.

By this analysis I will show what is the role that management and union should have. What activities should they perform and means of overcoming the crisis.

### 2.1. Management in crisis solving

Researches have shown that companies most often come into crisis and fail under the influence of bad management. In my opinion, the greatest number of domestic companies has failed precisely due to this reason. Managing a company does not only mean being in the managerial structure and perform managerial activities. The management means a lot more- research, study, analysis of business operations, ambient, buyers, suppliers and, the most important one- constant adjustment to changeable ambient.

Crisis of a company does not necessarily mean the downfall and ruining of a system. On the contrary, crisis is sometimes a good condition. This in the sense that it shows possibilities of change provides a chance and a possibility of the company developing and appears under some other circumstances. The typical examples for this are small companies. They are waiting that some large company, having a good position on the market comes into some crisis situation that will influence on the fall of its market participation. One digression- a bad appearance of large companies is used by the small ones having the possibility of fast reaction to market changes.

Management in case of crisis includes introduction and conducting the turnaround in the business operations so far with the purpose of taking the company out of crisis situation, temporary or potential crisis. These activities can be dealt by the company, management of the company or external consultants can be engaged.

If one company gets to know the crisis on time and if it is prepared to undertake concrete measures, then the crisis management can be conducted through four phases, being the following [4]:

- the phase of early introduction of crisis management that can be missed out and realize through the second phase;
- introduction of crisis management;
- concept realization;
- consolidation of the company.

#### *1 phase*

This phase has as the goal the primary insurance of the company's liquidity. All the company's reserves must be mobilized and safeguarded for basic functions of the company [7]. It is highly important to set the clear priorities, determine internal and external responsibilities, engage on going professional external assistance and, before all, equip the crisis management with necessary authorizations and responsibilities. All of this necessitates previous constitution of the team for mutual work. Parallel to the activities for insurance/provision of liquidity, the management undertakes fast and concrete measures of restructuring/recovery in order to eliminate the obvious entrepreneurship organizational deficiencies.

The important tasks in this phase are: coordination of interests and activities of all participants of interest groups, creating transparency and creating trust at all the participants in the company's activities and conducting the correct course.

### ***II phase***

In this phase, the introduction of crisis management is performed. The basic activity is defining the starting situation in all relevant fields of the company in order to elaborate the real concept of restructuring i.e. recovery and start with defined actions of the management. Alongside with this activity the activities of the third phase are performed.

### ***III phase***

In this phase the concrete activities regarding the crisis management, i.e. concrete program are performed. The activities imply strategic and organizational restructuring of the company [6].

Together with the responsibilities in the companies, also created is the range of products and services concentrated on market groups and groups of buyers. Based on it the activities and processes in the company are strictly oriented and the company's organizational structure is functionally rearranged by the professional performance. This phase can begin already after one to two months. Depending on the size of the company, the branch or complexity of tasks that need to be executed, this phase lasts one to two years. In this phase the long term success or failure of crisis management is determined and it shows how quick and clear improvement of the efficiency is.

### ***IV phase***

In the final phase the structural changes are steadily rooted and the company concentrates on its key competencies. However, the caution is necessary. In tide of pleasure due to conducted change and achieved structural adjustments, many companies oversee the fact that the forwardly directed, strategically oriented dynamics of the crisis management still has to be consequently continued. Oppositely, all the processes with slow putting to sleep of all the efforts slowly begin to move up side down.

The success of crisis management is reflected in the following circumstances [5]:

- an adequate concept, plan of way out of the crisis,
- an experienced crisis management,
- a capable management of realization.

## **2.2. Unions and their activities under crisis situations**

The simplest definition of union is that they represent the associations of workers.

*The Union's activity is: unification and accomplishment of mutual interests and activities in leading the tri-partite negotiations, concluding of the General collective agreement, establishing the lowest labour cost and accomplishing the health protection, educational and social policy, market economy, the influence on making the legal regulations significant for working, economical and social safety of the union members, membership of the Union Federation and their labour- legal protection, organizing union services for free of charge legal assistance in protecting the workers rights, realization of the influence at conducting the privatization process, organizing the union schools, education of the union members of the Federation Union and the International union cooperation [10].*

The program objectives of the Union are directed to the legal relation in all fields of life and work, and on creating legal and economic conditions in Bosnia and Herzegovina that will enable higher employment and adequate cost of labour, and thus realization of labour and social rights of union members of the Union Federation.

In realization of the objectives, the Union federation primarily stands for [10]:

- *development of democratic processes and constructing legal and social state with equal opportunities and rights for everybody;*
- *advocating the accomplishment of peace and freedom on the principles of international freedom and appreciation;*
- *supporting the realization of conditions for inclusion of Bosnia and Herzegovina into Euro-Atlantic integrations;*
- *struggling against all forms of corruption; development of market economy; fighting against poverty;*
- *faster economic renewal and increase of employment level;*
- *fast and legal conductance of the process of privatization in the as transparent and just as possible way;*
- *building a unique strategy for collective negotiation, signing and consistent application of General Collective agreement as well as the collective agreements of the Union Federation members;*

- *financing the building-ups, bringing and application of legal regulations whereby the economic and social protection and safety of members is provided; development and realization of solidarity of its members; policy of equal position of women and their greater inclusion into union bodies; greater memberships and education of the young for union activities;*
- *arrangement of the relations for development and enforcement of union cooperation and inclusion into the European and global union movement on equal basis with other members; arrangement of relations related to organizing and providing legal protection for union membership of the Union Federation members;*
- *arrangement of the relations related to organizing and functioning of union schools for Union Federation members;*
- *consistent conductance of conventions of the International labour organization ratified by Bosnia and Herzegovina;*
- *establishment of relations of legal and rational management and usage and protection of mutual union property;*
- associating, merging and unification of unions on the territory of Bosnia and Herzegovina.

All of the afore mentioned union activities are present under any circumstances, whether when there is a crisis present, when it is evident or when it does not exist.

Under conditions of crisis the unions mostly organize strikes. We ourselves are aware of this kind of situation in the country. In this way the unions are struggling for realization of their rights that are naturally completely justified.

It can be said that union as an organization, has no direct influence on overcoming crisis and on certain activities that are conducted under these circumstances. The union can be estimated as the external actor in crisis situations- if we observe the aspect of a company.

Union will, by its activities and actions, meetings, show what and how it wants, it will show what the workers want and think to be correct.

From the companies' aspect, the union will act on micro level. Also, it can act within a region or on the level of the whole country.

### **2.3. The activities of the union in BiH**

The Federation of independent unions of BiH and non-governmental organizations today, by mutual action exert powerful and continual pressure on authorities in BiH at all levels in order to change the current, bad state, in order to create the stimulant ambient for investment and development of economy, opening of new work places and thereby the improvement of economic-social condition of all citizens [10].

So that it can be realized, the authority has to take on the responsibility and all of the institutions of legislature and executive authority have to energetically and immediately start the activities for fighting against criminal and corruption. All the holders of public functions have act exclusively in the best of public interest, and all those acting in the institutions of regulatory and executive authority with the intention of realizing financial or any other material benefit for themselves, their families or friends have to be excluded and sanctioned.

The crisis of our society is of multiple characters and is directly caused by complete irresponsibility of the authorities and policies creating and supporting the authority. The deep and long standing crisis is caused by personal interests or narrow groupings criminal interests, by activities of importing and privatization lobbies that have placed the structure of the authority into function of realization of their own interests.

The system of functioning of the executive, legislative and judicial authority has not experienced any progress for a long time, and thus it is more and more distanced from approaching the modern and democratic principles of functioning and joining to the EU. The manner in which the system of authority is functioning is devastating, ruined and non-functional more than ever and it is exclusively adjusted to goals that are in complete oppositeness of the citizens interests.

All the activities and initiatives on going for a long time are based on the concept of buying time for remaining in power and keeping the occupied positions, and thus leading to the further looping and devastations of the property belonging to all citizens of this society and future generations.

The possible way of mutual activity and action of union are [10]:

- Public intercession; expressing the civil disobedience, public protests and general strikes and changing of responsible authority representatives. All the activities will mutually be agreed through coordination, both of the scope and of time and place of action. The activities will for start be lead on the territory of the Federation of BiH and afterwards on the territory of the whole BiH and before the state, entity and cantonal institutions of authority;
- demanding urgent enactment or modification of various legal regulations, policies, strategies and reforms in the economic-social sector as well as in other vital areas, and consistently conduct the laws and measures adopted in such manner;

- The coordination will insist on establishing the principle of liability of selected public officials in power implying acting in public interest and with purpose of wellbeing and progress for the whole society, and it will insist on changing the officials acting in contract to this principle;

As it is perceived the unions and their activity under conditions of crisis, place greater emphasis on micro-activity and recovery from the global crisis in the country. However, their activity is also stimulated by the crisis management by influencing on certain activities, giving guidelines at making the strategy. It is very important that the crisis management at formulating the strategy knows exactly what do workers want, how they are set and their perspective of the problem. It is best perceived through union activity.

### 3. CONCLUSION

Overcoming crisis is bringing management to the maximum of their possibilities and capabilities. Possible causes of it are lack of objectivity in judging their situation, lack of experience in crisis situations, lack of strategy and courage. The signal to crisis management about the real condition, real ensued crisis comes from external actors in the first line from- banks, shareholders, associated societies but also from workers- unions.

Engagement of crisis management is the starting phase in overcoming crisis. Afterwards, strategies and accompanying measures for overcoming it are defined. Management and its activities have a key role in solving the internal causes and recovery from the crisis.

The second part of this paper has shown the activities of union. It has already been stated that unions are the ones pointing out that the crisis actually exists and its proportions. Unions are not under the influence of parties, are not subject to outside influences, they simply represent the rights of workers and fight for them. They influence on crisis by globally acting, influencing on the state and through the state on the companies as well.

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## **SELF-DETERMINATION OF PEOPLES AS INSTRUMENT OF ACQUIRING STATEHOOD IN MODERN CONDITIONS**

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***Summary:** In the light of actual ongoing on the international scene, we can notice permanent decline of trust in international law and values it proclaims. Moreover, we can speak of the crisis of international order as a consequence of difficult social crisis, crisis of value system, crisis of moral, crisis of international institutions and similar. The international law norms are more and more often abused with a view of justifying the hegemonic pretensions of powerful states. In unscrupulous scud for accomplishing own ambitions, basic postulates of international law are abandoned. The process of origination of new states is most frequently a long and painful process and it has often been accompanied by armed clashes ending with large number of victims. Nowadays, when the global map is more or less drawn, we witness "resurrections" of rights on self-determination of peoples, getting a completely new dimension under modern conditions. Non-existence of a clear procedure, measures and conditions for such acquisition of statehood has been a favourable ground for creation of precedences unknown in latest human history. It is about the issue of secession of Kosovo, i.e. illegal origination of the new state on the territory of already existing sovereign state of the Republic of Serbia. At the same time, Pandora's Box has been opened and the international community has found itself in trouble- how to prevent future endeavours of separatist movements throughout the world in acquisition their own statehood? The confirmation of those trepidations has followed a year later, by the unilateral proclamation of independence of Georgian provinces- South Ossetia and Abkhazia. The subject of this paper will be an analysis of the phenomenon of "the right to self-determination of peoples" through the prism of its origination and origin to its realization, justification and relevance in modern conditions.*

**Key words:** right to self-determination, secession, Kosovo.

### **1. CREATION OF STATES AND THEIR DISAPPEARANCE**

#### **1.1. Creation of states**

Development of international law has not brought on clear defining of ways of acquisition of statehood. Viewed retrospectively, the appearance of new states has not been the result of honoring the previously set legal norms. It is especially interesting to mention the appearance of states through sovereign legacy to his/her successors. Newer history has known the acquisition of statehood by act of legislative organs of some state, such as full-fledging of Iraq by decision of the British Parliament. The most frequent aspects of formation of states were those by liberating and conquering wars. Conflicts have, inevitably, implied peace-keeping conferences, whereat state borders have been remodeled and appearance of new states has been established.

In order to institute order into international relations, the appearance of new states during XVIII century has tried to justify itself by the principle of equilibrium of powers [1, pg. 82-86]. The principle implied division of territories and defining borders for the purpose of accomplishing political balance on the international scene. The world in which the powers will be evenly divided and wherein all interests would be satisfied was, however, a highly difficult to reach ideal. After the downfall of an illusion as such, formulating legal norms were forwarded based on which new states would appear. The UN organization was constituted in 1945 and surveillance and territorial sovereignty and integrity of states have been set in under its jurisdiction. However, the impossibility of international community to bring all life situations under legal norms was seen only a few years after the UN foundation. Thereupon, by mutual decision of international factors new states have been created, firstly Iran in 1932 and afterwards Israel in 1948. Legal mechanism crowned with the United Nations has not provided the results expected from it.

If we start from an archaic but still actual division we can differentiate originatory and derivative way of states formation [4, pg. 74]. *The originatory* way implies formation of a state on the territory where at none state existed before, i.e. on the territory under no ones authority. One needs not being an expert and realize that this way of formation of states was the least painful because it excluded negative side-effects of subsequent remodeling of borders. *The derivative* way of acquiring statehood is the result of change of borders of already existing states. Since today the territory outside the jurisdiction of some state does not exist or it is not eventually under the international regime, the second way is the only and the only possible today. Later on we will see that it is the source of frequent international clashes and conflicts. Looking for an adequate place in this division, we could classify forming of new states or annexation to the already existing ones through the self-determination principle into derivative ways of acquiring statehood. That place would also be taken by all contemporary separatist attempts as well throughout Europe and the world, if they would succeed in their intentions.

In order to settle the dilemma arisen on defining the state appearance, the question of its legal basis has been set! What differentiates a state from other aspects of organizing of peoples on international scheme? It ended up on the standpoint that those are the lawfulness and effective authority. It is, further on, directing us to the elements of statehood symbolized by: territory, permanent citizens and effective authority. On the other hand, disagreements existed on the elements of recognition of the newly formed state by other states. A great part of international community has believed that the above mentioned three elements are sufficient for the formation of state but that for its entering into international organizations, realization of diplomatic relations and entering into international agreements, the recognition of the whole international community is necessary. Later on, this statement will be questioned when speaking about the legality of formation of some state. It is unquestionable that the political interest of great powers will be "a tray on the scale" that will be crucial for making these controversial decision.

## 1.2. Disappearance of states from the international scene

State disappears from international scene when some of the already mentioned elements of statehood disappear. Both appearance and disappearance of states as well [7, pg. 85-88] from the international scene has mostly been the result of military conquest. Thereat, we can also differentiate between: A concrete military seizure and eventual conquest by threatening force to wards the state which is not able to defend itself (e.g. Austria in the Second World War). Conquering can be related to the whole territory (the puppet state of ISC) or only to a part of the territory (Manchukuo in 1932). Protectorate (Czech-Moravian) and formation of personal or real union (Albania) are some more of familiar ways of occupying other states. Today, international order declares it as rough violation of rights to sovereignty and territorial integrity of a state. In favour of it also speaks the so called *Stimson's doctrine* for which we can say that it represents the principle of contemporary international law. Brian-Kellog's pact [2]. "In other words, the principle on non-recognition of states being the result of aggression and conquering has been established. However, this principle has subsequently been violated innumerable times because, as we have already stated, the state recognition coincides with political interests of the state recognizing it. A good example of disrespecting the doctrine is bombing of the SR of Yugoslavia in 1999 under excuse of humanitarian catastrophe and afterwards the forceful secession and recognition of the province of Kosovo as an independent state. As we realize, the USA have become victims of their own doctrine. Another argument to "doubting Thomases" is that the international law does not fulfill its purpose!

## 2. SELF-DETERMINATION RIGHT DETERMINANTS

### 2.1. Self-determination

The roots of this law are related to the bourgeois revolutions happening in Europe and America at the end of XVIII and beginning of XIX century. The principle was formulated as a legitimate excuse of bourgeois in the fight with feudal absolutism. No one mentioned abandoning the existing states and their replacement with new borders. The principle gets its true form at the beginning of XX century in works of Vladimir Ilych Lenin and Woodrow Wilson [7, pg. 222] who have been its major promoters. Lenin has raised to a higher level the concept of right to self-determination with relation to what has been pointed out in the mentioned revolutions. He thought that its accomplishment should be enabled to the suppressed peoples to form their own state. On the other hand, Woodrow has predominantly based his standpoint on the economical interest of the USA, thinking that by this right realization a good opportunity is created for investment of American capital into the undeveloped areas of former colonial peoples. His attempt to include the principle of self-determination into constitution of the League of Nations Pact has precisely been baffled by those colonial powers domineering those peoples.

Self-determination has obtained its true application in the period after the First World War when the question of division of former feudal monarchies has been posed. According to the ground, a significant number of new

states then appeared at the international scene. The period after the Second World War has only affirmed and strengthened the faith in the set principles. The Atlantic Charter from 1941 dedicates significant number of lines to this principle. Upon insistence of small nations the right to self-determination couple of years later becomes a constituent part of the UN Charter and acquires the status of international legal principle.

Today, the right to self-determination is a part of a broader group of principles of international law established by the Declaration on international law principles on amicable relationship and cooperation of states in accordance with the UN Charter. At the level of European continent, those principles have been elaborated in the frames of OEEC by the Declaration [9, pg. 10] on principles by which the member states are guided in mutual relations, including also: respecting human rights and basic freedoms, sovereign equality of states, duty to cooperate with other states, duty of conscientious fulfillment of undertaken obligations according to international law, inviolability of borders, territorial integrity of states, non-interference into internal affairs of other states, abstention from threatening and use of force and the principle of peaceful settlement of international disputes. It concerns the principles reflecting basic rights and duties of states.

The principle has acquired its precise determination in the International pact on Civil and Political Rights from 1966 and the International Pact on economic, social and cultural rights from 1976. Both pacts in their first article speak of the rights of states of free choice of their political order and free organizing of their cultural, social and economical development. Besides other rights, the pacts guarantee the liberty of any nation to use its natural wealth and resources, without limitations that would eventually come from international economical cooperation. Simultaneously, nations are prescribed as the obligation to make easier to peoples the realization of rights to self-determination according to respecting the UN Charter. These provisions are noted by contesting the lawfulness of ruling the colonies and introduced a conception that using the right to self-determination is also allowed to the peoples not being recognized earlier by international agreements.

In its true meaning, the right to self-determination [1, pg. 82-85] implies the right of peoples under foreign authority to form the independent state or to acquire the status that would be an expression of the peoples' free will. Although contradicted by some authors, first of all due to non-existence of clear principles of its application, its importance has especially come to the foreground in acquiring the statehood of ex colonial peoples. However, it has bore with itself numerous problems that should have been solved on the fly.

One of the problems has been related to precise determination of the term "peoples" to which according to the UN Charter the only granted right is the right to self-determination. The word peoples [4, pg. 179] in our language can be interpreted and used in two meanings. From political point of view, *peoples* would signify a set of people living in a state. However, this word is often equalized by the term of *nation* as well as a community of persons of common ethnic designations and origin. International practice is nothing more specific in this regards.

Indefiniteness of this term has conditioned the inability of clear determination of grouping which has been granted the right to self-determination. It has been especially disputable in recognizing the statehood of the African tribal communities. It was similar in the case of peoples that did not acquire the attribute in historical way but by accession of political factors (break up of Austro-Hungary). The solution has been found in recognizing this right to groups apt for it according to the UN estimate. On that occasion a rather great freedom was given to this body left to determine the future faith of many states without clear criteria and at its own discretion.

The UN General Assembly has tried to prevent that this right becomes an excuse for partial or complete breakdown of a state. Firstly, by one of its resolutions it has limited the application of this right to peoples under foreign occupation, racist regimes and colonial domination and by the following resolution it has prohibited any external influence and especially the use of force that would lead to breakdown of a sovereign state. Additionally, it has been established that the right to self-determination does not automatically mean creation of a new state but that it also implies acquiring the autonomy of already existing state or eventual annexation to the other state. Accordingly, the differentiation of internal and external self-determination appeared.

Although the mentioned Declarations have been expressing the stands of majority, their optional character has often been misused. It has enabled the powerful states a wide non-defined legal space which they would use in remodeling state borders on the Earth globe. The autonomy and independence of the UN organization has been brought into question, almost always making decisions under powerful influence of the mentioned states. How to explain in a different manner the uneven stands of the United Nations, only because the actors are politically fit or unfit states. Terrifying information is also the fact that the made Decisions and Resolutions are no longer respected.

## 2.2. Secession

Secession [1, pg. 82-86] in international law can be determined as "an act of certain part of citizens of one state to, together with the territory, segregate from the composition of internationally recognized state and set free from its legal and political authority through creation of their own state." Even though this definition is rather



definite, it is more and more difficult in practice to differentiate between this concept and the concept of self-determination of people. But, let us start in succession!

It is about a form of secession from the parent state most often related to ambitious endeavours of religious, racial, ethnical or national minorities. Certainly, the group of potential pretenders to independence does not end, those can also be the constitutive peoples within some states, such as of former socialist federations of Yugoslavia, USSR, etc. The defection through secession has a strong political foretoken and it is related to the misuse of force in international law. The reason lies in the fact that those groups that cannot defect by a peaceful way do it by the armed aggression and most frequently by civil war. Along with it, the secession comprises all those behaviours that have been prohibited by the already mentioned Resolutions of the General Assembly as illegal.

There were authors that have admitted the possibility of origination of state by secession but modern doctrine stands for a clear attitude that it concerns an unauthorized form of acquiring independence, i.e. statehood.

### 3. SELF-DETERMINATION CRITERIA

The defined criteria for self-determination of peoples do not exist. Surely, it does not mean that the attempts to define them did not exist. Mostly the causes of their contestment have been of political nature. On the other hand, the standpoint of some authors has been that due to complexity of relations in international community, unique criteria cannot be applied on several cases. Following is the formulation of those measures which could be primarily applied under today's conditions [10]:

1. Intolerance of living together,
  2. Historical right,
  3. Ethnical composition of citizens,
  4. Will of people,
  5. Responsibility for consequences.
- The intolerance of living together implies impossibility of further life of one nation under favour of the state having the sovereign power on that territory. Since the criterion can be rather broadly interpreted, herewith it should be taken into account even the subjective feeling of intolerance towards the rule of the state from which some peoples want to defect. Certainly, the subjective feeling would have to be expressed on a referendum or by the decision of the representative body. The adequate example can be found in the feeling of Irish or Basques and Catalonians opposing to any further life within Great Britain, i.e. Spain.
  - The territory where some nation is living is of great importance for history and culture of one state. If we take into consideration a long lifetime of some nations we realize that it can have a great emotional significance for the people living on it as well. However, historical right on a certain territory is a criterion which can be manipulated. The opinion of experts to which the determination of this right would be entrusted is often subjective and subject to influences. Is it correct to constitute the state Israel on the territory whereon Jewish people have not existed for two thousand years? Or to resign the state to the citizens of Kosovo that have been living there not more than 50 and some years? It is apparent that the international community has taken this criterion very seriously! Or, is it perhaps, another aspect of demonstration of force?
  - Ethnically clean state [10] has much greater chances to function steady than it is the case with multi-ethnic state. However, multi-nationality in modern states is almost a rule. The best example for it is the USA on the North-American continent and France in Europe. Yet, the increasing inter-dependence of peoples cannot annul the differences having been created for centuries. Some peoples live in several states making the majority in one and the minority in other. It additionally complicates already complicated relations between the states. Settling the inter-ethnic conflicts by allocating own territory (entity) to each ethnical group has been attempted in the BiH. It has been considered that it will be only a temporary solution until the conflicts in the state do not settle. Up to today, those entities have not been abolished and there are tendencies of some entities to separate from the huge and non-functional state. The problem of such divisions of state is incongruence of ethnical structure of citizens now living on one territory with the ethnical structure that has lived on it in the past. Regarding that, this principle is contradictory to the historical criteria so that the actual issue of eventual division of Serbian province of Kosovo would be unperformable precisely out of this reason. Although, there are also other objective reasons!
  - Will of people [10] should be clearly and unequivocally expressed, either by the referendum or by democratically chosen representatives. What is especially insisted upon is that the will is not a consequence of momentary dissatisfaction of people but that it is constantly expressed. It would be achieved by renewed voting after a certain period of time, in order to ascertain the following of the initial decision. The declaration of at least 2/3 of the representatives of each nation is necessary and the participation of the equal number of representatives in the decision ratification.

- Each nation tending towards the independence has to be prepared to accept all the consequences of being independent. We will agree that in positive aspects are enjoyed in the very act of acquiring statehood and thus we will address the negative ones. The preparedness, for example, can be related to forming the forces of security and order that would safeguard the newly-formed state. It is known that the forces of the Russian Federation have been forced, as the legal successor of the USSR secure for a period of time the borders of new independent states such as Armenia, Moldavia and other. Along with it, the future state would have to have a clearly defined plan of future economical development of the country. Ukraine was forced, couple of years after acquiring independence, to ask from Russia a lower price of oil than the one at the global market.

Regardless of some deficiencies, in settling of this problem, the furthest point would be reached by applying the mentioned criteria. The criteria are not final or generally accepted, thus they will be only a fine pointer in looking for a final solution. Difficulties will arise each time when new practical application is tried, because it will probably be in contradiction with policy and interests of some states. Non-existence of consensus of international law entities will for long be the main skid of coronation of some of these criteria. After all, there nothing new in the West!

#### **4. KOSOVO, SOUTH OSETIA AND ABKHAZIA- SECESSION OR SELF- DETERMINATION**

##### **4.1. Kosovo issue**

The end of XX and the beginning of XXI century has been marked by the attempts of a great number of people in the world to create their ethnically clear state. Completely opposite to the ideas of globalization, promoting cohesion among people, economic inter-dependence and erasure of borders, a paradigm evolved [8] according to which the mutual life of several nations in one state is not possible. The problem of ethnical intolerance is well known in human history. One could say that with individual exceptions, it has been successfully settled in the period of 40 years after the Second World War, in order to culminate after the fall of Berlin wall and collapse of communism. Former communist federations then bore the brunt. Basic characteristics of those countries were multi-ethnicity, late formation of nations and states, optionally set borders, struggle against foreign conquestors and as the result of all of it, heavy economic backwardness. A legitimate excuse should have been found for breaking down of those states. As was the case with breakdown of feudal monarchies, the solution was found in promoting the right to self-determination. Broad interpretation of the UN provisions dedicated to this principle has enabled creation of new, ethnically clear states. Communist ideology has been replaced by the nationalistic one.

Strengthening of the independent states has been accompanied by increased discrimination of national minorities. The occasions for defection of Kosovo have been the provisions of Serbian constitution from 1990 which has subducted to significant extent autonomous rights to Albanians at Kosovo guaranteed by the previous constitution. The roots of intolerance, however, originate from far in the past. From the very formation of the Yugoslav nation, Albanian minority was, due to the complicated relation of communist party and Albania placed into unequal position. If we take into consideration the centuries old pretensions of Albania to Serbian territory, we will realize the reasons due to which the Kosovar Albanians have nurtured the hope for creating the Republic of Kosovo. On the other hand, Serbian intellectual elite, after the breakdown of Yugoslavia, has seen a possibility of creating a new, ethnically clean Serbia.

In the last years in foreign media a statement could be heard that the secession of Kosovo is the final stage of breakdown of former Yugoslavia. Thereat, it has been pointed out that there are no differences between the province of Kosovo and former Yugoslav republics and that it is an inevitable consequence of a humanitarian catastrophe happening therein. Couldn't we also ascribe the epithet to bombing of the SR Yugoslavia in 1999? After finalization of the armed intervention the Security Council Resolution 1244 [3] has been brought, "confirming the attachment ... to sovereignty and territorial integrity of the SR Yugoslavia and other states of the region". As the solution of the Kosovo issue, the SC demanding an intrinsic autonomy at Kosovo, posing as the obligation of the temporary self-government to provide "the intrinsic autonomy" for the peoples of Kosovo within the SR Yugoslavia.

The general Assembly Resolution from 1966, predicts the prohibition of applying force and prohibition of outside interference on the self-determination process. The only similarity with former Yugoslav republics was the outside factor which has encouraged the secession. Defending its strategic, economic interests, the USA [5] has, for who knows what the hundredth time, taken over the role of creator of foreign state borders.

If the intolerance of living together is taken as the criterion, Kosovo would have the real background for the secession. Centuries old manipulation over Serbian and Albanian population by the political elites of these peoples has created an insurmountable gap in their relations. Because, there has been Serbians and Albanians that have managed in creating the community of living together. Would indeed the primeval contradictions of

these peoples be insurmountable if they had not been heated up by the idea on great Albania or if the Serbian government had not been treating the Kosovo Albanians as the second-order citizens?

On the other hand, there's not even the slightest trace of the eventual historical right of Albanians to the territory of Kosovo. Serbia was practically born in Kosovo and it relates its distant past for the territory. Albanians have started the mass populating of the Serbian territory in the period after the Second World War. What is longer-fifty years or seven centuries? The argument of the promoters of great Albania is interesting, saying: "If Kosovo is Serbian cradle, whose child has been born in it!?" What remains for us is to ask ourselves how we could allow it to happen!

Albanians make the majority population on the territory of Kosovo. However, they are not the only population living there. There are other peoples as well: Serbs, Turks, Goranci, Gypsies, Egyptians, etc. Thus, we cannot speak about the ethnically clear population living in the province.

Who would be the holder of the right of referendum [12]? Kosovar Albanians have had the minority status within Serbia. Doesn't the right of self-determination belong only to peoples? Another resolution of the General Assembly explicitly forbids the application of this principle for solving problems of national, ethnical, religious or racial minorities. Isn't it direct breach of the UN Charter?

Kosovo Albanians have not been prepared to get into the clinch with the newly formed statehood. The realization of the total procedure of secession has been directed by the USA and the EU countries. By the Marty Ahtisary's plan they have firstly created a background for the separation and afterwards they have lead in the international forces that will be executing the temporary government. What is to be done with the financial debts having been created years back and which have been refunded by the Republic of Serbia? Here we can discuss on the responsibility for such like historical precedence! It "lies in the hands" of all those countries that have initiated and then recognized the secession of the Serbian province. The burden of preventing future similar attempts of secessionism in the world will be on them. In the meantime, some of them have already been realized!

#### **4.2. South Ossetia and Abkhazia**

A year after the secession of Kosovo and Metohia, the South Ossetian parliament has adopted a declaration according to which "Kosovo precedence is a persuasive argument" [11] for recognition of their independence. By the act, Kosovo has lost the status of the case sui generis. America's insistence on the independence of Kosovo has returned to it as a boomerang.

In the nineties of the previous century, national and inter-ethnic contradictions between Armenians, Ossetians and Abkhazians have culminated. The situation was the copied model of conflict of Serbians and Kosovo Albanians. Ossetians asked for greater rights and broader autonomy, and Armenians did not recognize those rights to them. In the period of fourteen years (from 1992 to 2006), two referendums were held [13] whereat the citizens of South Ossetia confirmed their wish for acquiring independence. Both times, the right has been denied to them, by the absence of the recognition from relevant international factors made of: UN, EU, OEBS and NATO. After the victory over Armenian forces in 1993, Abkhazia has become de facto independent state which up to today has more or less undefined status. In August 2008, Armenian army has attacked the territories of South Ossetia and Abkhazia for the purpose of taking over of the separated territories. It was the occasion for a powerful Russian reaction defending the interests of majority Russian people in these, now already former, Armenian provinces. Soon afterwards, Russia has recognized the statehood of south Ossetia and Abkhazia.

New development of the circumstances caused an inevitable question- are there any similarities in this act with Kosovo case!? The West theorists of international law see in this procedure some kind of revenge [6] of Russia for proclamation of Kosovo independence. Pointed out as the argument is the absence of consent of the General Assembly and Security Council for the undertaken Russian actions. Thereat it is emphasized that for the similar military action in Iraq, before all the Resolution 1441 has been adopted by which Saddam Hussein has been warned on the ruinous consequences of his ruling. What an absurd, wasn't it just an excuse for the subsequent aggression on Iraq? Withal, it is pointed out that the Armenian military aggression cannot be compared in any case with the one which Slobodan Milosevic conducted over the citizens of Kosovo. One needs not be a great expert and not to see that it is about the politics of double standards and that to Armenia is allowed everything not allowed to Serbia. Along with it, the psychological war that the Western media are leading against Russia and which was led at the time against Serbia as well is set into background. Is everything the way it has been presented in the media? Russia is also reproached that the secession has not a reason for creation of an independent state, but it is rather for it being joined to the Russian Federation. Is this an attempt of Russia to intimidate all the countries wherein pro-Russian population is living that the same thing could happen to them as well? Finally, this secession could be the reaction of Russia on grouping of the NATO pact countries around its borders!

Without intending to enter into a deeper analysis of this ethnical conflict, irresistibly resembles the one at Kosovo, we are asking a question—would the criteria of self-determination have their purpose at all or is the political moment a crucial factor of this one and all other separations?

## 5. CONCLUSION

Under the excuse of right to self-determination, the West has started building the new world order. Artfully manipulating small nations in the ethnically diverse ambient, the countries of the North-Atlantic union have successfully remodeled foreign borders. Using the platitudes such as legitimate defense of national interests, humanitarian catastrophes and genocides, the same countries have realized their ambition of global domination. Simultaneously, they have succeeded in depreciating the legal rules and to set as the only valid parameters- the goals and means used to accomplish them.

After a long stagnation, Russia included itself into the race, as a power pretending to regain the old positions of power. Feeling isolated from the global events, it has waited for the moment wherein it would confirm its strength and magnitude. Is it intentionally wished or has the life ordered that the right of self-determination of peoples is a screen and excuse for settling of accounts of the old enemies? The fight for interest spheres has always been lead through small states!

Political interests dominate the juridical system formulated at the level of the international community. The International legal regulation is non-functional, because when it needs to be applied, it passes onto the field of politics. Additionally, the impreciseness of some provisions creates a space for abuse of international law by the great powers.

A good direction of future activities implies strengthening of awareness of obligateness of respecting and preservation of international law. Another method is advancement of preventive ways for avoidance of conflicts and principles of peaceful settlement of international disputes. Promotion of culture of peace and peace-keeping existence has to be raised to a higher level!

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## PROCESS OF CRISIS MANAGEMENT

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**Summary:** *Business crises are every day phenomenon. Because of diversity of its causes and occurrences, it cannot be generally defined. A state which threatens to destroy an organization is called a crisis. It implies decrease of performances in the organization in the extent that it endangers a survival of the organization. Four basic crises can be systematized as characteristic. Those are, basically four types of mistakes which can operate individually or separately. These are: Economic crisis, social crisis, management crisis and a crisis caused by legal system.*

**Key words:** *Economic crisis, crisis management, management.*

### 1. TYPES OF CRISES AND THEIR CONNECTION

Economic crisis implies a situation when a company is not able to fulfill its obligations. Basically a company has continual low business profitability. Economic crisis can be explained as a debt towards distributors, obligations according investment or other credits, obligations towards employees, low salaries etc.

Every social crisis leads to more or less social crisis. Related to functions of business subjects there are reversed cases [1, pp. 134]; long term neglect of relations between employees in the organization can lead to crisis.

Most often business organizations are in crisis because of weak management. Management crisis comes usually before social and it is often the one to cause economic and social crisis. Whenever an organization shows weak results several years in a row, management is in crisis.

Legal cause of a crisis is a situation when an organization has to be liquidated for legal reasons (a ban on that type of business, merge imposed by law etc.). It is obvious that the first three types of crises are connected and that in most cases follow each other.

### 2. RECOGNITION OF CRISIS

Symptoms of weak business are hard to perceive until they develop into problems. Causes, symptoms and problems are even harder to identify properly. First signs can be seen in every term accounting. They are mathematically exact. The decrease of overall income is very noticeable, increase of costs, decrease of productivity, the loss of market positions, the loss of expert staff, decrease of quality etc. [4]. The first mistake that managers in these situations make is looking for financial support from banks, that is taking loans- crediting weaknesses that occurred. The following measures show, undoubtedly, the danger or a crisis in business:

- lack of solvency, lack of ability to fulfill obligations,
- loss of market positions,
- decrease of salaries with the same or increased production and sale,
- increase of loans in overall resources,
- decrease of own working capital,
- fluctuation of staff on better working positions,
- increase of reserve and number of items that cannot be reversed.

The question is why some managers, when they notice a crisis, take all possible measures and prevent collapse, and some hide it, deny its signs and let organization come into a state in which it has to take actions of bankruptcy. When we are talking about reversal in business, that is taking organization out of crisis, we have to

bear in mind two tasks: stopping the damage, i.e. interruption of bad business and securing the recovery.

### 3. PROCESS OF CRISIS MANAGEMENT

Crisis management in wider context includes a wide range of activities focused on crisis: action before a crisis occurs, from crisis management in the narrow sense, to learning new ways of thinking and actions anent the crisis [4] activities related to business during the crisis are regarded as crisis management in narrow sense or overmastering a crisis. Crisis management is a process which can be presented through its phases.

Before a crisis occurs it is necessary to act in prevention, focus on prospective learning. The foundations of preventive activities are scenarios of possible future directions. Focus is not only on avoiding crisis, but on preparation for inevitable crisis as well. Focal point is creating a crisis plan which includes all activities for overmastering the crisis in case it happens.

After crisis has occurred which could not be avoided, the focus is on its overmastering. Overmastering a crisis includes activities which alleviate and control the damage. The key questions are related to identification of crisis, its strength and consequences. That part of crisis management is often called crisis management in narrow sense.

The last step in crisis management in wide sense is reactive crisis management. The key question is: What should be done next and how? The accent is on learning from the crisis and shaping future directions in organization development. Because of ill timed preventive crisis management, improvisation and acting according to symptoms, the real causes of crisis are neglected and so multiplicative and accelerating effects are created which strengthen the crisis and accelerate it.

Starting point for understanding and overmastering a crisis is a concrete starting position of an organization. It is marked by market and buyers i.e. target groups that organization turns to, as well as products and market results that the organization offers, and in the end key competence of the organization, especially research and development, positioning of the organization and its identity.

The task of crisis team is a complex critical situation is fast and target analysis of samples and evaluation of consequences of a crisis [6], as well as suggesting and taking measures for overmastering the crisis. The highest level of decision making is the right place for crisis headquarters, in an organization it is a president of authority. That position of crisis team enables power of penetration and the speed in making decision about implementing certain measures as well as «covering the back», and for members of the crisis team it means a positive psychological effect which shouldn't be depreciated. The crisis team is marked by importance, urgency and capability of making decisions. Regarding the composition of crisis team the rule is: every area i.e. every department of the company can contribute a great deal to analysis and solving the crisis and realization of measures for overmastering the crisis, must have their representatives in the crisis headquarters.

Thorough and detailed analysis enables the discovery of real causes of business crisis. Light upon company's position in the market and towards the competition, as well as its internal structure i.e. organization, process and management quality are the dimension of current state analysis. When the causes of its wrong development are known, it is possible to define measures which will lead the company in permanent successful position. Catalogue of measures with the plan for realization and prognostic view make the nucleus of reversal concept.

The following questions help identify the bars which will enable reversal [3]:

what are the causes of company's crisis and what are their effects?

1. what changes are needed in order to bring the company into short-term and middle-term positive situation?

2. are there, in the company, necessary learning and changing abilities, as well as the wish for reversal?

In the answers to these key questions quoted authors developed, in eight steps, the process for crisis management in narrow sense. In *the first step* the development of the company is monitored based on gain and losses as well as the structure of monetary flow, by the most important indicator of success in the last four or five years. The data for this analysis are obtained from accountancy and financials. In *the second step* the company is assessed in narrow environment, field, and specific factors of field success are assessed with the question to what extent the company takes into consideration and follows those factors. By comparing the key indicators of the company, established in the first step, with field average and indicators of the best company in the field, additional stronghold for defining crisis causes and potential companies is obtained. In this part of the analysis data from banks and field associations are used. For overall account of the field financial indicators are not enough, booming influence of the world market, technological development, danger of substitutive products, occurrence of new concurrent, changes in the market, changes in the behavior of buyers are also taken into consideration.

In *the third step* the manufacturers and destroyers of values are discovered in the company and in that way we get to the nucleus of reversal concept. The basic goal is to identify the segments of the market and products which bring money and income, and those which decrease and destroy those values. On the foundation of this

analysis future strategies for products and markets are derived. *The fourth step* is related to research of company's position in the market and in the field in order to identify the chances for its development. Market analysis is made in the way to involve the market information, information about competition, buyers' demands and positioning of the company towards competition. After that chances and risks of the company are evaluated and future strategies are derived according to the market and competition. In *the fifth step* key processes are already identified. Not only products, but processes are also analyzed: in which way the company organizes its key processes and functions in order to profitably offer in the market its products, which processes influence the income of the company, which processes the company has to master in order to be competitive in the future, in which way the activities of a certain process are connected, which functions are involved? On the basis of such analysis measures for improvement and reshaping of the key processes are suggested, with regard to time of flow and productivity. In the sixth step the chances for decreasing costs, derived from measures for process improvement, enclosed according the function fields. Reversal of the company implies consequent cost management. The key question is: which costs are really necessary for preserving the company? Practitioners claim that it is always possible to cut costs for 10-20% and on the basis of process improvement. *The seventh step* involves research of the quality and management potential, learning and changing abilities of the all partners in the company [3], the starting point is the experience that 80% of all reversals is caused by management mistakes. Understanding of the way how to manage a company, in which way- wrong way, too- the decision are made, information gathered, how- wrongly, too- partners are made, all are the dimensions of understanding the causes of crisis. In the last eighth step the overall concept of reversal and renewal of the company is developed, based on the information gathered in the previous seven phases. In this phase a new strategic orientation is defined, base on the segmentation of products and markets, as well as thoroughly researched potentials of the company in the field of transactions, time of flow and costs. Before the presentation of the reversal concept the question is how big the increase of income and the decrease of costs should be in order to reach the doorstep of profit?

#### 4. CONCLUSION

From the things mentioned in this paper the conclusion is that a crisis is almost normal state, the usual characteristic of the transition from one development phase to another. Successful crisis management demands:

1. anticipation in crisis management, i.e. preventive actions, crisis prevention (implementing the measures of caution and prevention),
2. identification of crisis ( has it started, how to recognize it, how strong is it),
3. reactive crisis management i.e. overmastering the crisis ( what is to be done in order to get out of it).

The responsibility is on management to create strategic radar, instrument for gathering signals of early warning, qualitative information about internal and external changes that occur, i.e. permanent readiness to adapt and monitor all possible changes.

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**Conference Announcement**  
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